INCREASING THE COMPETITIVENESS OF U.S. MANUFACTURERS

FIELD HEARING

BEFORE THE

SUBCOMMITTEE ON REGULATORY REFORM AND OVERSIGHT

OF THE

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HOUSE OF REPRESENTATIVES

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INCREASING THE COMPETITIVENESS OF U.S. MANUFACTURERS

MONDAY, NOVEMBER 17, 2003

HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON REGULATORY REFORM AND OVERSIGHT
COMMITTEE ON SMALL BUSINESS
Washington, DC

The Committee met, pursuant to call, at 9:36 a.m., at the Spartanburg Technical College, Spartanburg, South Carolina, Hon. Edward L. Schrock [Chairman of the Subcommittee] presiding.

Present: Representatives Schrock and DeMint.

Chairman SCHROCK. Let me call this hearing to order. Let me introduce myself. I am Congressman Ed Schrock, I am privileged to represent the Second Congressional District of Virginia, and I am here in South Carolina where there is a soft place in my heart. The first place my wife and I lived after we were married was Charleston. So that is real special to us, and I can even tell you where, it was 1551 Highway 7, Apartment 202—so that is how important is was to me and how much I remember. So it is really nice being back here, especially with my friend Jim DeMint, and I really look forward to this hearing this morning.

Jim is an absolutely fantastic advocate for small business and I can tell you the people of the Fourth District of South Carolina are truly blessed to have him representing them in Washington.

In my role as Chairman of the Subcommittee on Regulatory Reform and Oversight of the Small Business Committee, I often hear from small manufacturers on what it takes to increase the competitiveness of U.S. industry.

Jim has told me what an amazing group of entrepreneurs and community leaders reside in this district. I am anxious to hear from those witnesses today and I want to thank Jim for making this event possible today.

Manufacturers in this country face the same problems as many other small businesses—high energy prices, the high cost of health insurance for employees, high cost of regulatory compliance, and a tax code that is not always helpful to them—usually not ever helpful to them.

It is incumbent upon Congress and the President to do everything in our power to remove the barriers to manufacturers success and survival. Jim and I are working on many initiatives to do just exactly that. We are working on tax relief for domestic manufacturers, we have passed bills to provide association health plans and

health savings accounts and our committee is working to reauthorize the Small Business Administration in a way to make it more helpful to small manufacturers by raising loan limits and encouraging government agencies to buy more goods from them.

With that, Jim, thank you again for bringing us here and I will turn it over to you to introduce our witnesses today.

Mr. DEMINT. Thank you, Congressman. I would like to thank all of you for being here, particularly you, Congressman Schrock. The Chairman of the Subcommittee is traveling with us today.

I particularly enjoy working with the Congressman on the Small Business Committee and I appreciate his leadership, particularly as it relates to regulatory reform and oversight.

I would like to also thank Spartanburg Technical College for hosting us in this brand new community room. This is a world class facility here, a real resource to Spartanburg, to job creation, and I thank you all for allowing us to be here.

I am convinced that American manufacturers stand at a crossroads today. Faced with international competition, the burdensome regulations that the Congressman has already mentioned, consistent fear of litigation, it is no wonder that this country and our manufacturing sector is facing difficult times.

We are here today to identify those issues which are proving most troublesome to manufacturers in the U.S. More importantly, we are here to talk about solutions. I firmly believe that there are steps that we in Congress can take to reduce regulatory burdens, to boost the number of skilled employees in the workforce and to improve the business climate in America for our manufacturers.

While it is important to look at our trading partners and our trade agreements, to ensure that they are being enforced, I believe there is ample room for improvement right here at home in the policies of the United States government towards domestic manufacturers.

I would like to thank all of our witnesses for being here today, especially those who have traveled long distances to be here. I am eager to hear your testimony and I am looking forward to hearing from you about what is working, what is not working and what we can do to make our manufacturers more competitive.

I would like to introduce our first panel beginning with Grant Aldonas. He is our first witness today. We have worked very closely together on a lot of issues and I appreciate his attention to our office, he has been in our office a number of times working on trade issues and trade enforcement.

Mr. Aldonas is the Undersecretary for the International Trade Administration of the United States Department of Commerce. And if the rule that the longer your title, the less you get paid applies, you are in a heap of trouble, Mr. Aldonas.

Mr. ALDONAS. Certainly on a per hour basis.

[Laughter.)

Mr. DEMINT. Mr. Aldonas serves as Secretary Evans chief advisor on international trade issues. Previously he worked with the Chief International Trade Counsel, to the Chairman of the Senate Finance Committee. Mr. Aldonas has also worked in a private law practice and served in positions in the Office of the United States Trade Representative and of the State Department.

So Mr. Aldonas, thank you for being here.

I would also introduce Daniel Young. Mr. Young is the Managing Director of the Business Development Division for South Carolina Department of Commerce. In his position, Mr. Young and his staff provide industrial prospects information on the strategic advantages of locating in South Carolina. Since 1989, Mr. Young worked with the South Carolina Department of Commerce in different capacities related to research and economic development. He is a recognized authority on state tax incentives in South Carolina and I certainly appreciate you being here to share your insight.

Mr. YOUNG. Thank you, Congressman.

Mr. DEMINT. Mr. Aldonas, we will start with your testimony.

STATEMENT OF THE HONORABLE GRANT ALDONAS, U.S. DEPARTMENT OF COMMERCE

Mr. ALDONAS. Thank you, Congressman.

Chairman SCHROCK. Let me just make one quick comment. Because we all have planes to catch, we will ask that you keep your opening statements, if you can, to five minutes. At that point, the trap door that was installed this morning will open and down you will go.

[Laughter.]

Chairman SCHROCK. So if you can try to do that.

Mr. ALDONAS. Definitely will. Thank you, Mr. Chairman; thank you, Congressman DeMint. Thank you for giving me the opportunity to participate in the hearing as well as being on the panel with Dan.

I want to discuss the Bush Administration's plan to boost jobs and help domestic manufacturers. This administration appreciates both of your leadership in raising the concerns of Virginia and South Carolina manufacturers with the highest levels and making folks in Washington understand the challenges that industry is facing. In that role, I know you both helped in shaping the President's Manufacturing Initiative and I look forward to working with you and of course the Committee, which has done yeoman's service over time.

I really want to compliment you both in terms of the effort on the reauthorization of Small Business Administration. It is a vital link. People oftentimes do not know that small companies like Intel and Microsoft started with Small Business Administration loans and it is an incubator for so much of what is important in small business in the United States. And I want to thank you both for your contribution on that side.

I particularly would like to draw on both your experience in Virginia and South Carolina in the effort to attract investment. When I have been across the country over the last six to nine months meeting with manufacturers in 23 roundtables, companies large and small, the ultimate question is how do we attract investment in the United States, how do we make sure that this is an attractive place to invest in manufacturing. And there are a number of factors that play into that. But both Virginia and South Carolina have an amazingly strong record of attracting investment, creating domestic investment as well as attracting foreign direct investment to your respective states. And I think there are lessons for us in

the federal government as well as across the country in looking at the laboratories that both Virginia and South Carolina represent.

I have been looking forward to today's hearing for another reason as well, because it offers me a chance to review some of the findings from the roundtable discussions we had with manufacturers and to talk a little bit about our trade relations and how that fits in the context of the overall effort to create and foster an economic environment in which manufacturing can succeed in the United States.

In fact, Secretary Evans and I just returned from Beijing a week or so ago, where we did have a length conversation with Premier Wen and a number of the subsidiary officials about the trading relationship and made a fundamental point which I think we should all bear in mind. I think we all recognize that with China, they have, by moving in the direction of free market and leaving socialism behind in most respects, they have made a lot of progress over the last 20 years and lifted 300 million people out of poverty. On the other hand, they have 900 million left to go. And one of the things we need to be constantly aware of is the degree to which we are ensuring the playing field is level between ourselves and the Chinese so that they are not exporting their unemployment to our shores, as a practical matter.

And because trade in goods, manufactured goods, makes up the largest volume, two-thirds of everything that is traded worldwide, you feel the pinch in manufacturing before you do in other sectors. And I think that explains a lot of what has been going on in U.S. manufacturing recently. And I will come back to that as I go through my testimony.

I first wanted to lay out a little bit about the economic context that our manufacturers find themselves in. One of the most important things to understand is that manufacturing really does play a critical role. I worry that there is a bit of a crisis of neglect in the country about manufacturing, not understanding just the central role that it does play. It represents 14 percent of our GDP, 11 percent of our employment. But those numbers really do not reveal what the manufacturing sector does.

As a practical matter, most of the innovation in our country begins with innovation inside the manufacturing sector. That innovation translates into higher productivity, not just in the manufacturing sector, but on farms. When I visited John Deere in Des Moines, I was fascinated to see what they were doing with new spindles, which you would think of as low tech manufacturing. It is actually a very high tech operation, it means that cotton farming across the country—Texas, California and the south—is much more efficient, much more productive and has made us world leaders in the export of cotton.

What that means is you start in the manufacturing sector with innovations that really drive change throughout the economy in a positive direct and has always been our competitive edge in many respects. So we are always concerned about when you are at the tipping point, when you lose the benefit of that innovation that is key to raising our standard of living as we go forward toward our economic future.

I also want to take issue though that many times I think people argue that American manufacturing is being hollowed out and the numbers belie that. We have the strongest manufacturing sector in the world. We are both the largest producer and the largest exporter of manufactured goods. I think I always surprise people when I tell them that our manufacturing sector standing alone would be the fifth largest economy in the world. It would be larger than the entire Chinese economy, as a practical matter.

And it is good to keep in mind that what we have got out there in the United States are an enormously terrific bunch of people in the manufacturing sector who are excellent competitors. And that is really what makes us strong and will keep us strong, if we have the wisdom I guess to foster that. Some of the comments you were both making about what we needed to do in trade policy as well as keep our side of the street clean at home really go to the heart of whether or not we can foster manufacturing in this country.

South Carolina's experience, I would say, Congressman DeMint, is instructive in terms of what you do to try and create that environment. In 2002, South Carolina saw $9.7 billion in export sales, which was up 35 percent from the 1999 level of $7.1 billion. What is interesting about that is through that period of 1999 to 2002, what South Carolina was doing was really working against the tide. The dollar was at an all time high since 1985, you had very slow growth in economies abroad, but you still had South Carolina exporters making good in a market that was very difficult for them to compete, by raising the volume of their exports. And so it is a real tribute to sort of the economic environment that has been fostered here in the state.

Of course, those figures translate into jobs for South Carolinians as well as a higher standard of living throughout the state. And that is why manufacturing not only matters, but is worth fighting for. Although I think we are starting to see the economy turn around and after a very tough spot, the manufacturing sector is beginning to participate in the broader recovery, at 7.2 percent growth in the third quarter, an uptick in employment, certainly stronger growth in the manufacturing sector with industry's supply management figures showing not only good growth but prospects for future orders being up significantly. And so I think things are turning around.

That should not give us any sense of complacency by the manufacturing sector. There are still some root problems that we have to grapple with. I think again, both some on our side of the street as well as some on the trade side. And that is what the President's Manufacturing Initiative is really designed to come to grips with. The manufacturing recession actually started earlier than the rest of the recession in the economy, it started early in 2000. And at that point, there had been significant pressure on pricing for a long time, particularly since the Asian financial crisis in 1997 and the dropoff in some of our major export markets. And what that has meant is not only a significant contraction in manufacturing in the recession, but also a sharp downturn in employment. Employment losses in manufacturing represented about 90 percent of all job losses during the recession and during the recovery.

And I think what surprised all of us is the extent to which the economy has been growing since 2001 after the President's tax plan went into effect. You still have seen continuing job losses in manufacturing, there is tremendous pressure to raise productivity and reduce costs and that has had an impact on the ability of manufacturers to start the hiring process again. So while recessions are traditionally harsh on the manufacturing sector, normally in the post-war recessions, overall economic activity has dropped about two percent, whereas manufacturing has dropped about seven percent in those recessions. Here, you had a relatively mild recession, but manufacturing was still off by six percent. So this one has been extraordinarily harsh on the manufacturing sector.

That reflects both some cyclical changes as a part of the business cycle as well as the more structural issues. And the structural issues, there is no mystery to them. I like to say that, you know, if you are serious about manufacturing, we have to get serious about things like tort reform, things like getting our energy costs down, things like getting our healthcare costs down, things like getting regulatory costs under control.

If you ask many small businesses about what their current biggest problem is with our Tax Code, the will tell you it is the cost of compliance as much as it is the effective rate. They will take a look at things like the depreciation schedules under the alternative minimum tax, which is known in manufacturing sectors as the anti-manufacturing tax, and if you go through the mechanics of both what it costs a company because of those depreciation schedules and the fact that you effectively have to keep three sets of books in order to comply with the tax law. I remember when I was starting out as a young lawyer, when you were required to keep two sets of books, now as a practical matter to comply with the law, you have got to keep three. And there is a cost attached to that. We oftentimes do not think about the cost.

I would say that what we have had—and this is not through any level of intent, I think we all understand that, but at all levels of government and in every branch—and I include the courts here—we have a tendency to make individual decisions without understanding the multiple burdens we have imposed on manufacturing as a part of the process. That is true of what we do inside administrations, both at the federal and state level with environmental regulation, energy regulation. It is also true with the courts when they make decisions in tort suits or allow asbestos class action litigation to go on for 20-30 years without compensating anybody and not resolving the cloud that hangs over business investment as a consequence of that.

So there are an awful lot of things, as you were commenting, Congressman DeMint, that we could clean up on our side of the street. No doubt about it.

Now, having said that, we do have some immediate and striking problems on the international front. And I would say this is both on the financial and on the trade side. For a long time, we used to have the luxury of thinking about these worlds of international monetary policy and trade policy as separate worlds. We started out after World War II with a fixed exchange rate regime. The trade policy part of it kind of functioned on its own. That has not

existed since 1973. As a practical matter, things that happen in currency markets can dwarf anything that happens on the trade side. And I am happy to say that the President understands that. He has been willing, and Secretary Snow has been willing, really to confront many of our trading partners about the problems we face on the currency side, to make sure that they understand that it is economic fundamentals that drive currency rates, not government intervention.

On the trade side, I have seen a number of the pieces of legislation that advocate things like across-the-board tariffs. Those things do not take into account the diversity of our own manufacturing base, the extent to which we are well integrated into the international economy and that we need to make sure that we stay integrated in the international economy to succeed, including in manufacturing.

That said, there are places where we lack, and much of that comes down to whether or not we are willing to enforce our WTO rights and whether we are willing to be aggressive in the use of the trade remedy tools that we have available to us under the law. I am happy to say that I think the Administration has been aggressive on those fronts. I know, for example, China, which presents in many respects the biggest challenge that we are grappling with on the trade front, over half of the anti-dumping cases in the Commerce Department are focused on China.

And I do want to come back to China, because it does present something of a unique problem. But I never want to let anyone else off the hook. As a practical matter, the Japanese have intervened as heavily as the Chinese in terms of the currency market. That is a problem still for auto manufacturers 20 years after this was a significant political issue.

There are still a lot of inadequacies as far as I am concerned in the trading system, much of which we are trying to resolve in the current negotiations. For example, you know, throughout the postwar period, we always left a little more on the table because we wanted the system to move ahead. It was part and parcel of a process of making sure that the allies hung together in the cold war. But those days have passed too. And the fact that our tariffs are below two percent, whereas tariffs in much of the rest of the world are above 15, some places as high as 30 to 50, is simply unfair. The only way to do that, frankly, is to negotiate in the WTO and ensure that other people come down to our level and we can go to zero at that point. We can make sure that we clean this out and move toward what would represent free trade. But we are going to have to do that at the negotiating table. It is something where in the absence of the President's ability to go to the WTO and meet with our trading partners in these fora, we will not solve that problem for American manufacturers.

With that, let me turn the China. China presents some unique problems. As I was alluding to earlier, I think over 20 years, they have shifted away dramatically from a reliance on socialism. But we should not be under any illusion that that process is complete. This is still a non-market economy in many respects. I know here in South Carolina, it is true in Virginia as well, when I think about the textile industry, I have not heard a textile manufacturer say

they were not willing to compete on a level playing field. But when I think about a Chinese industry that is still, you know, by conservative estimates, 50 percent state-owned, where those companies continue to be financed by state-owned banks, where the companies simply do not face the pressure to earn a profit, you have got a very different system at work than you do here in the United States. Not to put too fine a point on it, but, you know, for American companies, if you are a small manufacturer, your bank will pull your financing, your working capital now because they do not like the look of what is going on with your asset values. You might still have good solid cash flow, you have met every payment that you have made, the bank may still pull the loan, based on the covenants. That does not happen in China. And if they do not face the same capital market pressures, frankly the playing field is not level.

So a lot of what we have been talking about with the Chinese recently is to bring them up short in terms of saying there is not only a system of laws in the WTO that you have to comply with and have not yet complied with, but beyond that, you have to understand that an international trading system, to be free, and for the Chinese to get the best benefit out of it as well as for us to get the best benefit out of it, it assumes certain things about the workings of the market. And until the reform process is complete in China, we will not actually have resolved the fundamental issue.

So our pressure has been on them to fundamentally reform the sorts of things that are going on in their economy, whether it is on the currency side or whether it is on the trade side. Because until we are through that process of reform, we will see continuing friction in the trading relationship and we will see a demand from manufacturers, justified in my view, to use the trade remedy tools that are available to us to offset what is fundamentally different between our economy and the Chinese economy. Until the day when we are through that process, my guess is that we will continue to face those problems and have to work through those with the Chinese.

I will say, to their credit, they are—every time we have met with the Chinese recently, they are willing to engage in a very frank and constructive conversation about what needs to be done. They are certainly dedicated to closing the trade deficit at this point. We have emphasized to them that one time purchases of Boeing aircraft or automobiles in Detroit or textile equipment in South Carolina or for that matter even fabric is not enough. It still has to be that plus the structural changes that have to go on in the Chinese economy before we will be satisfied that there is in fact a level playing field.

With that overview, let me stop there and I will be happy to take your questions when the time comes.

Mr. DEMINT. We do have some questions for you but we will allow Mr. Young to share his thoughts with us first.

[Mr. Aldonas' statement may be found in the appendix.]

STATEMENT OF DANIEL YOUNG, SOUTH CAROLINA DEPARTMENT OF COMMERCE

Mr. YOUNG. Thank you very much, tough act to follow.

South Carolina Department of Commerce is the recruiting arm, the industrial recruiting arm for the State of South Carolina. We work very hard, we market the state, we work very hard to bring in international and national companies to our state, primarily in manufacturing. That is one of our target industries. Manufacturing is the backbone of the South Carolina economy. It not only creates jobs for the people in the state, but it also pays for government services and pays property taxes that eventually go to educate our children. Over the past five years, we have been successful in bringing in 100,000 announced new jobs from industry and over $20 billion worth of capital investment. And 80 percent of that is in the manufacturing sector.

Despite those gains, however, over the past five years, we have got 90,000 fewer South Carolinians employed ion the manufacturing sector. That is very troubling. Some of that comes from moving away from the labor intensive industry that has historically been a part of South Carolina's economy. The textile industries where we used to have one person working a loom, now is run by—is one person working a room full of looms, machinists where threat is shot back and forth at two or three times a second by a puff of air that actually is a vacuum going back and forth. It is an amazing process. That has evolved from a bullet of water that actually was shooting back and forth only two times a second. So the industry has changed, all of manufacturing has changed in much the same way.

We think of, for example, we are in the shadows of BMW Manufacturing Corporation, one of our crown jewels in the state that we were fortunate enough to bring in 10 years ago now. You go in there and there are machines that are building cars. You do not see a room full of people, it is not an assembly line with people here all over the place, it is a lot more mechanical.

But we have been successful in South Carolina in bringing in industry. One of the things that we have used to do that is to reduce the cost of doing business. It has been the state government's strategy to get the State of South Carolina out of manufacturers' pockets as much as possible. We have done that through an aggressive incentive program and an aggressive tax program, where we offer—we have lowered the cost of doing business as much as possible by reducing corporate income taxes, creating credits that allow companies that are creating jobs to offset their corporate income taxes. We have eliminated a lot of sales taxes, almost all sales taxes, that a manufacturer would pay in South Carolina have been exempted. We also have created some other programs that allow them to reduce both the startup cost of doing business and the ongoing cost of doing business.

We work with existing industries same as if they are a new industry because those existing industries are generally branch manufacturing plants and a branch manufacturing plant within say a Michelin is competing with another branch manufacturing plant perhaps in Oklahoma or perhaps in Newfoundland, Canada or perhaps in France, for expansion dollars. And if a plant is not growing, the plant is dying. We work those just as competitively as if it was a new company coming into the state. Existing industries are eligible for the same types of incentives that a new industry is.

We have seen the job losses over the past few years. And in 2000, there were two plants a month on average closing their doors in the state. Those were very painful to watch happen. Each one was lost opportunity for the state and for the citizens of the state. But as those job losses were occurring, on the state level as far as business retention, providing incentives or trying to save those companies, it is a very tough sell for the state in that those dollars, dollars that we put towards retaining those jobs are hard, they are fresh out of the general fund. They create great fiscal strain on the state at a time when we are already seeing budget cuts left and right.

In conclusion, just let me say that manufacturing is the backbone of the state. It will always be the backbone of the state. We do want manufacturing jobs and we are working as hard as we can with federal sources as well as state sources to try to save those jobs.

[Mr. Young's statement may be found in the appendix.]

Chairman SCHROCK. Let me yield to you, Senator.

Mr. DEMINT. Thank you.

Chairman SCHROCK. —Congressman DeMint. I am thinking ahead.

Mr. DEMINT. Not so fast.

I will start with Mr. Aldonas. The U.S. textile industry, as you know has filed four petitions for relief under the China Textile Safeguard Provision in the China Trade Agreement.

Mr. ALDONAS. Yes.

Mr. DEMINT. One of my I guess priorities since being in Congress was to push China to play under the same rules that we do under the WTO. And as part of that, I insisted that these safeguards be a part of that in case China imports grew faster than we could accommodate them.

What is the status of these safeguards and what is the time line that the Administration has for that?

Mr. ALDONAS. I am glad you asked me that, Congressman DeMint.

First of all, I want to thank you for your support for the industry and for our actions with respect to China on these issues over time. It is important, I think, for the Chinese to understand that this is not an issue that is just the Administration speaking, that this is Congress speaking frankly, and that it is our industry talking and it is the American people talking when we say we are willing to accommodate China and see them grow, hopefully prosper so they can pull the other 900 million out of poverty, but definitely to make sure that the playing field is level as a part of that.

And you are right on point in saying that the Textile Safeguard, when it was negotiated by the past Administration, was there because of pressure from Congressmen like both of you in making sure that what they were doing was providing a way of addressing the fundamental problems that we have with China in this area. It is not just a question really of the fact that their industry would expand so much in the absence of heavy government involvement, but you have got something unique with China. A good way to put that, Congressman, is that if it was based on wages alone, wages are actually a lot lower in other parts of the world, they are lower

in Indonesia right now, certainly lower in Africa, certainly lower in parts of India. The investments going to China, are in part because of heavy government involvement on behalf of that industry, and that is what we are competing against. And to that extent, I view these safeguards as a way of addressing those fundamental problems, not simply trying to grab the fact that we are seeing too many imports, which was kind of traditionally the way things worked under the quota regime for years, with textiles.

Now I expect that on schedule there will be a vote today in the Committee to implement the textile agreements on the safeguard actions, the meeting is scheduled for 4:45 this afternoon. My own view is that there is a strong case for the safeguards. If you look at the standard that was included as a part of the WTO agreement, we are supposed to be looking at whether there has been market disruption and a threat to the orderly development of the trade. In that context, it is important to know that in the lowest of the cases we are facing, you have seen about a 300 percent increase in China's imports and perhaps the most significant case on knit fabric, you have seen a 27,000 percent increase in imports. Virtually all of the knitting machines in the world are being imported into China right now because of the efforts of the Chinese government to trap investment into the knitting sector.

What that means is that our guys are competing not just with manufacturers in China, but with the Chinese government. To me, that is a legitimate point at which I think you do have to bring the Chinese up short.

I was with my counterpart from China this past week talking about textiles. Certainly from the Administration's perspective, there is a broader problem and we would be far better off in a constructive dialogue with the Chinese to deal with the problem comprehensively.

We are using the safeguards frankly as a way to engage in those consultations because the way the mechanism works, if CEDA does in fact vote in favor of the safeguards, we do introduce a quota, but as a practical matter we also engage in consultations with the Chinese, so there is a good opportunity there if the Chinese are willing to pick it up with us, to work out a more constructive relationship so we do not see the quick rise and fall and the things that are damaging industry because it is difficult to adjust to those inflows in any given year, as a practical matter.

So I am hopeful that the action will be positive on those and that where we end up is in a broader conversation with Chinese about the sector as a whole.

Mr. DEMINT. So you expect, anticipate a positive vote today for these safeguards?

Mr. ALDONAS. I do. At the same time, you know, you never say never and you never actually say you won until you have counted the votes. So my own reaction is that, you know, people understand the problem we are trying to grapple with the Chinese. I think we could always do a better job, us collectively I mean, in trying to get the word out about what is really going on. I worry a little bit honestly, Congressman, that oftentimes because of the protection that the textile industry has had over the years, that the sentiment is that these particular safeguard actions are just more of the same.

They are not, they are grappling with some fundamental problems with China that go well beyond what the industry has faced before. And we need to sort of dwell on that.

Mr. DEMINT. You mentioned the currency issue.

Mr. ALDONAS. Yes.

Mr. DEMINT. I think we would agree that the market forces without the tariffs and the quotas long term is the better policy, but without some market force behind the currency, it is going to be hard to get there. What do you think will happen? I know you have put some pressure on the Chinese too. Do they recognize that we have got an issue there?

Mr. ALDONAS. They do and they have committed themselves to moving toward a float eventually. I think they are very worried that if they opened up the capital account right now, that they would see a fairly dramatic outflow of funds and that would undercut deeply their economic growth. And from their perspective, you know, they basically have to generate above eight percent growth just to keep up with the number of people coming into the market in terms of employment. So they are loathe to do that.

I also have to say that China is about the only other engine in the world economy right now. So I do not think as an American economy, we actually have a vested interest in slowing down China's economic growth.

Now having said that, we are happy to work with them on the fundamentals of their financial system to make sure that it does work and it can get to the position where they can eliminate the capital controls that maintain the peg and I know Secretary Snow has succeeded, as did the President, in persuading them that we have to get after those problems.

I do expect that they will take a number of steps short of a revaluation in effect to revalue. For example, when they—this goes a little bit back to what we saw in the 1960s when we still had a fixed exchange rate regime—a lot of countries at that time would try and do what was the equivalent of a revaluation by doing things like eliminating the rebate of value-added taxes on exports that has the effect of making them a little less export competitive, has the same effect as would be a revaluation in some sense. But ultimately you have to grapple with the fact that they have got to pay and that it ought to be set by the market. And so while immediate action may actually be harmful to the Chinese economy and indeed to what is our fastest growing export market, we have got to see some steady action on this front. And I think that they have to understand they are going to continue to see us react on the trade side because if you cannot solve the currency problems, you see the friction on the trade side and they are going to have to understand that until we resolve this problem with respect to the currency, we are going to have continuing friction on the trade side and we will have to use the trade remedies that are available to us.

Mr. DEMINT. Mr. Chairman, do you have some questions?

Chairman SCHROCK. I sure do. Let me ask one question.

I want to go back to what you said, Mr. Secretary, and you mentioned some of the problems that manufacturers are having, tort reform and, you know, regulatory restrictions and the AMT, which is anti-manufacturing. That said, I want to ask you both, what are

the departments within the federal government and your state government doing to make sure that they are sensitive to the cost of regulatory compliance to manufacturing? Because we hear, I hear that all the time at home, we hear it in Washington, that you have lawyers breathing down your back, you have OSHA, you have EPA, on and on it goes. And that is just killing business. What are we doing to make sure the federal and the state agencies are not being overly restrictive on how they handle these things?

Mr. ALDONAS. Well, traditionally it has been the province of the Office of Management and Budget and frankly one of the complaints that we have heard from manufacturers as we went through the roundtables, Congressman, was the need for a stronger focus within the federal government on manufacturing. That is one of the reasons the President stepped forward and said we have got to create an Assistant Secretary for Manufacturing Services in the Commerce Department, make them the focal point for this and then give them the kind of tools so they can be helpful in analyzing, whether it is legislation or whether it is regulations, in terms of its cost on manufacturing. And that is something where we have been working closely with Chairman Wolfe as well as with Chairman Gregg on the Senate side in the appropriations process, not only to establish that Assistant Secretary, but provide the tools they would need so they can be helpful in addressing these issues.

I think beyond that, we need to make manufacturing sort of the forefront of any issue and any argument about where we are going. I am conscious of the fact that despite the best intent of any Administration, if you look at the Tax Code, it is complex because we write complex tax laws in Congress.

Chairman SCHROCK. By design.

Mr. ALDONAS. By design. And I think what we need to do frankly is make sure that we give you the ammunition so that as a part of the debate whenever any tax bill goes through, for example, that one of the things that people are thinking about is what is the impact on manufacturing.

And if I could just go a little bit further. There is one lens that we should look at any government action through. We now live in a global economy, whether it is a small manufacturer in South Carolina or a big manufacturer in South Carolina, whether it is a small manufacturer in Virginia or a big manufacturer in Virginia; they get up every morning competing in a global economy, like it or not. And it is here to stay.

And as a consequence, every step we take, whether it is in the Administration or whether it is in Congress or in the courts, we should look at it from the point of view of whether or not the action we are about to take will help our manufacturers compete in a global economy or hinder their ability to compete. And we need to essentially provide the tools inside the Administration that illuminates those issues and makes sure those costs are clear.

Chairman SCHROCK. No matter what we pass in Washington, tax or otherwise, there are unintended consequences.

Mr. ALDONAS. Absolutely.

Chairman SCHROCK. Seems like there have been severe ones.

I was impressed with your testimony, you said some of the things the state was doing and it looks like you mean business.

Mr. YOUNG. We do mean business.

Chairman SCHROCK. That is a play on words, I know, but—

Mr. YOUNG. It sounded good.

And on the regulatory side, we have our state environmental group, they work with industry to keep industry in compliance and try to get them ready for their permitting process as quickly and as smoothly as possible. While they are certainly within the mandates of EPA, they work with them as well as possible.

On the taxation side, actually at the state level for a manufacturer, we in the lower half of the state, we are out of their pockets except for a few sales taxes they pay. We have user friendly forms that are available on the Internet and we are trying to be as pro business as possible and we work with companies to try to keep them in business. One of the things, when I talked about the investment numbers, 85 percent of the jobs that are created in manufacturing investment within the state comes from existing industries. Once they are here, we work with them as well as we can to keep them active and profitable.

Chairman SCHROCK. Let me ask one final question. Is the worst over for manufacturing or is it going to have to get worse before it gets better?

Mr. ALDONAS. I think in terms of the business cycle, the worst is over. You have got strong growth, we will see the numbers turn around even in employment.

The worst is not over though in the broader structural issues, because if you think about it, some very positive things have happened over the last decade—the end of the cold war, trade barriers have come down as we have succeeded in moving through trade agreements and you have had a technological revolution that makes more trade possible than ever. But any time you have those constraints on a market, it means that there will be a build up of capacity much more than there would be in a free market state. And now when you peel those sorts of barriers away, you have got a tremendous over-capacity problem in manufacturing worldwide and until we adjust through that and supply and demand come back into balance, there will be very tough times. And our goal has to be how do we make sure that our guys understand their place in the supply chain and can compete. And a lot of that is stripping away the costs that we impose on our businesses.

I mean I was impressed by the things Dan was saying, because it is a model for what we ought to be doing at the federal government level. Thinking about taking the tax man out of your pocket, you know, my wife is the Assistant Secretary of Treasury for Tax Policy in the federal government. We do not do our own taxes.

[Laughter.]

Mr. ALDONAS. It is too complicated and, you know, Pam, fortunately is a farm kid from Minnesota up in the Red River Valley and her view of the tax law is if it is too complicated for my sharecropper father, it is too damn complicated. Probably have to edit that out, but the fact of the matter is, that is where we are and South Carolina is a much better model from the point of view of manufacturing because that is what we have to do, we have got to make sure that they have the capital to acquire the technology and expand. A growing business is one that is going to succeed. If we

are just satisfied with the status quo, that is not going to work because of these broader pressures.

Chairman SCHROCK. Mr. Young, you lifted some of those things, was that done in your State House with your Senate and your House?

Mr. YOUNG. Yes.

Chairman SCHROCK. It was voted. You need to bring them up to Washington, because there are people up there who just do not get it, they think business is the bad guy and business is favored over the individual. Well, without business, the individual does not work. And I just do not know why they do not understand that.

Mr. YOUNG. Well, actually our Governor came from Washington, Governor Sandford was in the House not too long ago.

And I would like to agree with something the Undersecretary said. The capacity issue is an issue. I mean the manufacturing side has taken such a hit that you have got a lot of floor space available. Certainly that floor space is going to have to be filled before we are going to see a lot more new investment come in.

And I will be honest with you about something else, the labor intensive industries that the south has historically been our bread and butter and what I refer to as our backbone, those jobs are probably going to continue to dwindle away. We cannot compete with a China where they are getting paid on a fraction of what a South Carolina worker makes per hour. And certainly we are only a fraction of what you are getting paid in other parts of the United States. Some of those jobs are going to continue to go offshore and that is going to happen.

Chairman SCHROCK. Everybody thinks of the automotive business as tens of thousands of people. Well, I have a Ford plant in the district I represent and you have the BMW, it is all robotics.

Mr. YOUNG. It is all robotics. Plus you have got a system where certain goods will be made in the United States, those that cost too much to ship in and the automotive industry is one of those. And we have made some hay in the State of South Carolina and all across the southeast on automotive and automotive suppliers and will continue to do that. But those traditional—if you look up into North Carolina where you have got textiles and you have got the furniture industry and you have got that too in your state as well. That is a double whammy that we did not have to go through. We just lost the textile jobs. Certainly North Carolina also lost on their telecommunications side as well with the fiber optic cable.

Chairman SCHROCK. Well, you might remember the brouhaha in the Army when they made the new black berets, they were all made in China.

Mr. YOUNG. Ooh.

Chairman SCHROCK. And the House had a fit. Now there are hundreds of thousands of those things sitting in warehouses because they said no, they have got to be made in America. That is where it has got to be.

Mr. DEMINT. I understand you gentlemen can stay for the 11:00 roundtable with the media, is that right?

Mr. ALDONAS. Yes.

Mr. YOUNG. Yes.

Mr. DEMINT. Well, we want to get the other panel in, but—

Mr. ALDONAS. Could I tell a joke just to close?

Chairman SCHROCK. Sure.

Mr. DEMINT. I think we probably need one.

Mr. ALDONAS. There is a lesson there, which is that, I was talking to one of the guys in the auto industry in Detroit and he was saying that look, we have got to help you out, just happened to be in places like South Carolina or Virginia, Tennessee and Kentucky, did not happen to be in Detroit any longer, and he said for Detroit to compete, we are going to have to move to one man, one dog manufacturing. Well, I have heard of lean production methods, I had never heard of one man, one dog. He said yeah, if we were going to compete with South Carolina, we would have to have one man to come in and turn on the machines and have the dog bite him if he tried to do anything else.

[Laughter.]

Mr. ALDONAS. So I mean the lesson there I think is that what you are seeing, particularly across the southeast, is that there has been a real effort to create the environment to attract that level of investment, but it is going to have to keep moving up the value chain and has to increase its productivity, which does mean less employment.

Mr. DEMINT. Right.

Chairman SCHROCK. Sure does. Thank you both, we really appreciate it.

Mr. DEMINT. Please stick around for a few minutes and we want to get our second panel to move into position here.

Let us move ahead because I know the media wants to get directly at you, so the roundtable is coming up.

But we appreciate you folks being here this morning. I want to start with Phyllis Eisen. Thank you so much for being here and I turned to the questions rather than the introduction. Let me get back here.

Ms. EISEN. No, do not go through the whole thing.

Mr. DEMINT. No, just briefly.

Our first witness on the second panel is Ms. Phyllis Eisen. Ms. Eisen is the Vice President of the Manufacturing Institute of the National Association of Manufacturers. Ms. Eisen travels around the country speaking about the need for local communities to take steps to ensure a skilled workforce, and we are delighted that she could be with us here today to share her research and findings.

I also want to introduce my friend Barbara League, very involved with the community and Ms. League is the Corporate Secretary of the League Manufacturing, an 85-year old small manufacturing firm in Greenville. Ms. League serves in many volunteer capacities and on several commissions including as Chairman of the State's Consumer Affairs Commission. Thank you for joining us, Barbara.

Deborah Moore. Ms. Moore is our final witness today and Ms. Moore is here today to speak on her experience working in our one-stop shop. She will tell us about that in a minute. She is currently employed by Spartanburg Technical College, but prior to that, she worked for over 20 years in the textile industry. Ms. Moore has a powerful story to share with us today and I look forward to hearing from you.

We will start, Ms. Eisen, with you.

STATEMENT OF PHYLLIS EISEN, MANUFACTURING INSTITUTE

Ms. EISEN. Thank you and I appreciate it—I will sum up my remarks, but I would appreciate it if my whole testimony could be put into the record.

Chairman SCHROCK. Without objection.

Ms. EISEN. And I want to thank both of you for doing this and focusing on manufacturing. Not just for small business, which by the way makes up, of course, 95 percent of where all Americans work, but makes up a majority of the National Association of Manufacturers. They are truly the engine that is continuing to drive this economy and will into the future. And they do need attention and respect.

Thank you again for focusing on just manufacturing. The heartbeat of this economy—I am a real cheerleader for manufacturing, I have been involved in it for 25 years and been privileged to both work for a manufacturing company, Mack Trucks, and to represent the NAM.

This is a very unique time, as you know, and I do not need to go into all the issues that the Undersecretary did, but support the fact that this is our good time in this country and how we decide to support and promote manufacturing and the people who work in it. When we say we are at a crossroads and a turning point, it is not an idle discussion.

It is our view that if we do do the kinds of things we know we must do, we will continue to be the leader in the world, the industrial leader in the world. We think the innovation and the creativity that comes from manufacturing is unique to this country and unique to the people who work in it. And if we continue, again, to provide the foundation for that, we can be second to none.

I also want to say that I am pleased that we are in this facility, in the technical college here in South Carolina's extraordinary community college and technical college system and I just want to say that community and technical colleges are manufacturers' first choice of training providers and have been for 14-15 years, since we began asking them. And they need support and help too, they are having their trouble in River City, to say to least, in this economy and I think they need to be supported.

We are in a bit of a perfect storm right now in manufacturing in the workforce and that is what I am going to focus on for just the next few minutes. The storm is between the demographic, global and technology changes that the Undersecretary talked about. They have come together uniquely to provide us with a set of challenges in creating a skilled workforce as we have never had before. The smartest generation that we have ever had, the most skilled generation, is beginning to retire, the baby boomers. In two years, they will seriously begin retiring, by 2010 they will begin peaking in their retirement. We will be short about four to five million skilled workers at that point. By 2020, most of them will have been retired. A few will be left on their walkers and running around, but short of that—oh, yeah, me too—short of that, we will see pretty much the end of the baby boom generation in the workplace. That is only, gentlemen, 14 years from now. We used to say 2020 looks like forever—14 years from now. And we will be short, according to demographers, about 10 to 14 million skilled workers. They

argue about it, just as all economists argue about everything, as demographers do, but it is a big number. We have got to fill it. The generation behind them is not as large, though they are fairly well skilled.

However, there is also a significant number of minorities and immigrants, as we are only growing by immigration in this country, and we have not had a policy for a long time, an immigrant policy in this country looking truly at diversity and the challenges of a culturation in language into our workforce. We have a numbers policy but we really probably need to think about having immigrant policy.

The second part of that storm are the technological changes that are just at the very beginning. I happen to have two children that work for Intel and what they tell me is happening in the chip industry is mind-boggling. We are just on the edge and it is taking smarter, more technically skilled workforce that has strong math and science. And I will promise you, we are not producing that in this country.

And finally, all the globalization issues.

We are in the middle of that storm. And as a result, we are in trouble in manufacturing. And I have come here to tell what I think is a frightening story but one that we can fix. I am going to sum this up quickly so that we can get to questions, but we had to find out what 80 percent of our manufacturers consistently said that they were having a serious to very serious to moderate problem finding qualified employees. That means employees who can read and write and calculate appropriately and show up to work on time, stay all day and have some communications and technology skills. They could not find them. Jobs were going empty even during the recession. We had to find out, so we went out and had a conversation with the country and we found out three critical things and they are in a publication which I would also like to submit for the record called Keeping American Competitive: A Talent Shortage Threatens U.S. Manufacturing.

Number one—and we did an extraordinary number of interviews and focus groups on the standard research methodology with Deloitte & Touche, a partner of ours. We found that the majority of Americans had no connection in their mind between the growth of their economy and the stability and robustness of a manufacturing sector. They had disassociated the two. They thought most of our goods had gone overseas, the production of our goods had gone overseas and that was just fine with them, except for the people whose jobs were affected. The rest did not mind because they said that their goods would be cheaper. So I want to tell you that in their heads, there is a huge disconnect and we have to understand that.

Two, to a person, from young people, their parents, old and poor and rich and middle class, from every region of this country, politicians and manufacturers themselves told us the image of manufacturing was dark and dirty and dangerous and all the Dickensian words and it devastated us. We knew that for a long time, manufacturing has not been good, but the unrelenting picture of assembly line workers wearing hairnets, acting like robots, a bunch of young women in this country told us they would rather work with

dead bodies in a funeral home than work in manufacturing, in a modern manufacturing sector. The knowledge that manufacturing was high tech, complicated, exciting, innovative and creative is not understood in this country at almost any level.

Finally, the third thing that stunned us and we are out to fix was that there is not in this country at all any career education as there are in many, many other countries, who hold it as a priority, particularly in Europe and now parts of Asia.

There is no consistent career education given except by parents in this country and most of the young people that we focused and surveyed told us they get about three hours every six months from their parents and that is mostly from their mothers. Forget it, dads, you are not in that picture.

Because of the lack of career education, young people do not know what they need to take in order to get into a family supporting job for the future. They do not understand the course work, they do not understand what they need to learn. Teachers do not understand it, administrators in the education system do not understand it and it is this lack of understanding, this lack of conversation between the education community and the business community that is killing us.

There is one goal, and that is to get your child into university. Nothing wrong with that. Unfortunately only 25 percent of our young people who begin a college education finish a five or six year program now and about 87 or 88 percent actually are pushed into college by the schools.

So we have a problem. We decided to really tackle it because we just cannot lay down and roll over. In order to attract manufacturing to this country, to this state, to any state, we are going to have to build a labor pool second to none in the world. We do not have it now. We still have that unique creativity and innovation but we do not have the labor pool, they are not getting it in school, business is spending close to $100 billion a year in education and training, and unfortunately half of those dollars go for basic literacy. We must end this or we will not have the labor pool here and there will be no reason for any companies to come here.

We are going to be launching a careers campaign beginning this spring. We are going to go to several pilot cities around the country and we are going to try to bring these communities together before we go nationwide.

Thank you.

[Ms. Eisen's statement may be found in the appendix.]

Mr. DEMINT. Thank you, Ms. Eisen. I think you have hit on one of the most important obstacles to long term manufacturing, particularly in this state. Nearly half the students who start high school do not finish. And that is a tough one.

Ms. League.

STATEMENT OF BARBARA LEAGUE, LEAGUE MANUFACTURING

Ms. LEAGUE. I would like to echo Phyllis' remarks in welcoming you back to Greenville and thanking both of you so much for affording us the opportunity to express our concerns over this most important issue. And Jim, I would certainly like to commend you.

You have got one of the best staffs known to man. I hope you realize that, they are wonderful.

Mr. SCHROCK. Does that come with a pay raise?

[Laughter.]

Mr. DEMINT. Yes.

Ms. LEAGUE. During my lifetime, Greenville-Spartanburg has evolved from being the textile center of the world where little to no emphasis was placed on education, to becoming a most diverse international manufacturing base where jobs are now driven by knowledge and necessitate undergraduate and graduate programs. The old K-4 mentality has been irrevocably replaced by K-20. Mr. Young and you are absolutely correct in that.

Manufacturing today requires skill and knowledge. With our technical education systems, both Greenville and Spartanburg, as well as the eight university consortium in our University Center located in Greenville, Greenville-Spartanburg is competently positioned for her competitive place in our global economy to supply any industry with skilled and knowledge workers. And I would like to talk with you more about that, because we are a model for the nation.

G.F. League Manufacturing Company is a fourth generation family owned, family operated custom fabricator located in Greenville since 1917. We have been proactive and innovative by upgrading our technology and machinery, hiring more knowledge workers, severely cutting budgets and greatly diversifying the industries we serve in order to stay in business.

North America is hemorrhaging manufacturing jobs. We have lost over 2.6 million manufacturing jobs in the last two years. We have lost the textile industry and are losing the furniture industry. Our company receives auction notices on a weekly basis from third, fourth and fifth generation 100 year old plus businesses that have closed their doors forever and many of those businesses are in North and South Carolina.

In September, I delivered a 14-pound box of these two-page notices to Senator Lindsey Graham in Washington and asked him to please work with our newly formed Congressional Manufacturing Caucus and Representatives Dan Manzullo and Tim Ryan to help us prevent the continuation of this devastation. I also asked him to share that with you.

There are, in my opinion, several reasons this is happening. All companies are primarily responsible for doing everything they can to remain competitive by having a near constant cycle of product development based on new research, new technology and new ideas. However, many of these companies that have gone out of business did do everything they could, and they still lost their businesses. Maybe they just simply did not start soon enough being proactive.

And to respond to Mr. Aldonas' statement, we are not playing on a level playing field. The inequities in currencies, labor costs and over-restrictive mandated regulations is killing U.S. industries. We must have in place fair trade policies and they must be consistently enforced.

The governments of China, Japan, Taiwan and Korea, in particular, have severely undervalued their nation's currencies, mak-

ing it more expensive to sell American goods in their countries and cheaper for their products to be sold in the United States.

For these countries to be able to produce materials to manufacture a product, purchase all the required hardware for that product, assemble the product with all the necessary hardware, ship it halfway around the world and then sell it in our country for less than the hardware alone would cost a U.S. manufacturer is neither logical, fair, moral, nor ethical. Our government must recognize this.

We desperately need tax incentives for all existing small businesses. We need Congressional reforms in export control policies, we need legislation passed to lighten the mountains of regulations that we are forced to comply with. Or, all other countries must be held accountable for the same regulations. That is not happening.

Commodity-like manufacturing is going away and will almost certainly never return to our shores. However, the ingenuity of America's entrepreneurs is an inherent strength that our nation must leverage. Anything the federal government can do to promote innovation—research tax breaks, encouraging more public/private partnerships between small business and research institutions—will lead to long term growth for small manufacturers.

The United States cannot afford to lose its industrial base. Without a manufacturing foundation, a service industry cannot exist. The future of our country's economic success depends on Congress giving our United States manufacturers a fighting chance to survive.

Thank you.

[Ms. League's statement may be found in the appendix.]

Mr. DEMINT. Thank you, Ms. League. Ms. Moore.

STATEMENT OF DEBORAH MOORE, SPARTANBURG TECHNICAL COLLEGE

Ms. MOORE. Thank you for inviting me.

Mr. DEMINT. Pull your mic just a little closer to you since you speak softly. Thank you.

Ms. MOORE. Thank you for inviting me here today.

When I was 20 years old, I started out in textile as a battery filler. During the next 25 years, I worked most of the time in textiles. I was a hard worker and a quick learner. I quickly learned to do other jobs until I finally became a weaver. I was proud of the quality and quantity of my work. From 1985 until November 1999, I was a weaver at John H. Montgomery Mill in Chesnee, South Carolina. Most of the workers at the mill either grew up together or went to school together. We were extensions of each other's families. When word came our plant was to be closed because of NAFTA, I was heartbroken. I felt I had lost a member of my family.

I did not think I had the skills to do anything but textiles. I knew it would be useless to try to get a job in another mill because they were facing the same loss as our mill. I had a child and had to think of our welfare and our future. I knew I would need new skills to rejoin the workforce and the only way to get them would be to go back to school. I was terrified at the prospect of going back to school at the age of 45. I had been out of school for 27 years.

With the help of the One Stop Career Center and the JTPA, I was able to attend Spartanburg Technical College and receive an Associate Degree in Office Systems Technology. They paid for my tuition and books for the five semesters that I attended. I started school in January 2000 and graduated in July 2001. I even made the Dean's List four out of the five semesters I attended.

Chairman SCHROCK. There are not many people here that can say that.

Ms. LEAGUE. That is right.

Ms. MOORE. Thank you. If not for the support and encouragement from the One Stop Career Center and Charlton Williams, I may have given up and not graduated. Charlton kept telling me I could do it and she had faith in me. I am very grateful there was a One Stop to help all the displaced workers who lost their jobs then and are still helping displaced workers now.

The help from the One Stop did not stop when I finished school; they also helped me find a job. When a position came open in the Financial Aid Office of Spartanburg Technical College, Charlton encouraged me to apply. I applied and was hired for the position. The position was a temporary one under contract, but I was happy to have the opportunity to prove myself. When the job became a permanent position, Charlton again encouraged me to apply. I did and I was hired for the permanent position.

I have worked in the Financial Aid Office since I graduated and am in a position to see other displaced workers who are going through what I did and being helped through the One Stop. I try to encourage them when they come in and say "I am 40 something and I have been out of school for a long time, I do not know anything else." I just at them and say, "You can do it, I did."

[Ms. Moore's statement may be found in the appendix.]

Chairman SCHROCK. That is a great story.

Mr. DEMINT. Mr. Chairman, questions?

Chairman SCHROCK. I will follow you.

Mr. DEMINT. I want to go back to Ms. Eisen. I have traveled around the state and heard the same things that you are talking about, that there are jobs open, but that our education system is not producing folks who can do the work. It seems to me that our whole concept of education needs to change along with the concept of manufacturing, which is now an internationally competitive business. That the idea of children going to school 12 years or more with the intent of teaching them no skills, or learning in an abstract that applies in no way to a career seems to be an antiquated idea and that we know children learn better earlier. And to wait until they are in college, if they go—but as I mentioned before, in South Carolina, we have a problem of now almost nearly half who start the ninth grade do not even graduate high school and the number of jobs that these folks can do, you know, gets less and less every year.

Is the National Association of Manufacturers, or are you looking at different ways to shape not just college level education——

Ms. EISEN. Absolutely.

Mr. DEMINT [CONTINUING] But it would seem college is too late for people to get a vision of the whole manufacturing industry. What are we doing there?

Ms. EISEN. Well, I agree wholeheartedly that it does seem a bit insane to expect people to learn the way we used to learn and try to have the same expectations we used to have in a different world. The definition of insanity I believe is doing the same thing over and over and expecting a different result.

Mr. DEMINT. Right.

Ms. EISEN. We cannot do that any more. What do we do and what are we promoting and asking Congress to support to is a redesign of the school system into promoting career technical education from the early grades on. That used to be called vo-tech. We do not call anything vo-tech any more. That again brings up images of loser, you are a second class citizen, there is not a parent that wants their kids basically to be in vo-tech. And if they are, they are not going to talk about it at the cocktail party I can promise you.

But we need to look at it differently. As a matter of fact, the Administration promoted last year, and I understand will be reauthorized next year, a new way to look at the old vocational education money as career and technical education money only and that no money would go to schools unless they could show that what they were teaching in their schools was connected in some way should the child or young person want to a post-secondary credential, a post-secondary degree of some sort, whether it is an associate degree or a full degree, but they could use what they learned and connect with high levels, high standards of academic learning, the learning they need for, as I said, career and a technical education. Charter schools are doing that around the country and there is a whole movement now of career academies in high schools and even beginning as young as junior high that are focusing young people and their parents. But if we do not capture the imagination of the parents and the educators who are pressured, again as I said, to get those college applications filled out no matter what those kids want or can do or cannot do.

It is a vicious circle and it is about a culture, it is about a different way of thinking. It is what we call flexaskillability at NAM, we call it creating a flexible individual who has multiple skills and the ability to be mobile and move around. That is the 21st century worker. And workers and young people who do not have those skills will not have a family supporting job in too few years. Now as far as the extraordinary problems of drop outs and illiteracy, the President certainly in his no child left behind legislation, has attempted to begin that process by saying every child will learn to read by the end of third grade. It is getting a slow start, there are issues with it, but it is the right way to go.

If I had my way, I would blow up every school in this country, call a holiday like FDR did with the banks, I would send everybody home and reorganize the schools to fit into 21st century thinking. We cannot learn the old way any more. It does not work, it does not work in industry.

I will tell you the number one skill that employers look for—number one, beside obviously being able to read and write and calculate. We do not think that is such a big huge bar—is teamwork. We work in teams in manufacturing. You cannot product just in

time and do customization in any event unless you pull your units together. Is teamwork being developed in schools? Very, very few.

So I leave it at that.

Mr. DEMINT. I agree. I really think the focus on careers and applied learning is a way to keep kids in school, because if they cannot see any relevance to what they are learning, it is hard to keep their attention. So I think certainly moving towards careers in school is a way to improve academics.

Ms. EISEN. When you reauthorize the Perkins Act next year, think about that——

Mr. DEMINT. I will.

Ms. EISEN [CONTINUING] If the status quo people come up and tell you you do not need any change and the new folks come up and tell you it must be integrated in career and technical education.

Mr. DEMINT. Yes.

Mr. Chairman, questions?

Chairman SCHROCK. Status quo does not get in my office.

Ms. EISEN. Does it?

Chairman SCHROCK. They do not. And you are absolutely right about the education. It is like every parent—you know, we wanted our son to go to college. Why? Because we wanted him to go to college. He did and did well, but a lot of kids are not cut out for that and they need to be in another role.

Ms. EISEN. That is right.

Chairman SCHROCK. I really enjoyed your testimony, and I enjoyed yours, Ms. League, but I loved yours. You are a living, breathing example of what can happen when somebody has a situation like you did. You are the real heroine—and others like you are the real heroines in this country who have managed to come back up, and I really admire you. When I read your testimony on the plane, I could not wait to meet you, so we are really happy you are here.

I want to ask you a question, but I want to base it on something that Ms. Eisen asked that maybe a lot of us did not hear. I understood you to say that funding for institutions like this technical center are in short demand as well, which could hamper the long-term viability of this place.

And I wonder, do you think worker retraining program have enough resources like for this place here and are we meeting the needs of everyone who comes to this technical center?

Ms. MOORE. I think there are a lot students that still feel like there is not enough to go around. We have a lot of students that do not get to go because they do not have the funding.

Chairman SCHROCK. Do you have grants? I should know this—does the state fund a center like this?

Ms. MOORE. Yes.

Ms. EISEN. Very little bit.

Chairman SCHROCK. Do you get federal funds?

Mr. DEMINT. There are some federal grants.

Ms. EISEN. Seven percent.

Chairman SCHROCK. Where do the funds come from? The students I guess, huh?

Ms. MOORE. A lot of the students do pay for it, but we have federal grants because we have financial aid and that is a grant that helps some students.

Chairman SCHROCK. Okay.

Ms. MOORE. But with the One Stop, it is state.

Chairman SCHROCK. But not everybody is getting the help that they need to get through, what do they do, just have to drop out?

Ms. MOORE. They do, because we have so many of them that are displaced now.

Chairman SCHROCK. Yeah, that just exacerbates an already difficult problem.

Ms. League, I want to ask you, are there specific laws and regulatory practices in your experience that are hurting manufacturers like you and I just wondered if you could name them specifically? In my mind, I think I perceive what they are but you are where the rubber meets the road and I would like to know what regulations and authorities are getting in your way.

Ms. LEAGUE. Tort reform is very high on my list.

Chairman SCHROCK. Suing has become a national pastime in this country.

Ms. LEAGUE. It is incredible. And there again, we are just not playing on a level playing field because last week I heard of a company in Korea that has started a wine company called Napa Valley. I mean, you know, and they can do that. The people in California are not real happy about that, but it's perfectly legal there. We have to be very careful about trademarks, copyrights, et cetera, et cetera, and should be but they just should be held accountable for the same things. Tax incentives is another thing. We would like to be able to have more help getting our employees to Greenville Tech, Spartanburg Tech for higher skill level jobs or to our University Center for degree programs. Specifically those are the big three.

Chairman SCHROCK. EPA, OSHA, do they drive you crazy?

Ms. LEAGUE. Oh, yeah, but I mean that has been going on since the beginning of time and all those programs are necessary, but I think——

Chairman SCHROCK. Yeah, but I will tell you something——

Ms. LEAGUE [CONTINUING] It is overburdensome.

Chairman SCHROCK [CONTINUING] I think they have just gone overboard.

Ms. LEAGUE. It is overboard, it truly is and does not need to be as—the reams of paperwork that we have to go through to be in compliance is just not necessary.

Chairman SCHROCK. I know, the paperwork drill is just totally out of hand. We are trying to do something about that too with the Paperwork Act. It is just unbelievable.

Ms. LEAGUE. Yes.

Chairman SCHROCK. Ms. Eisen, what can Congress do specifically before the end of this year—I know that is coming right up—to increase the competitiveness of U.S. manufacturers?

Ms. EISEN. Well, you are going out by Thanksgiving, you have to hurry. But—

Chairman SCHROCK. We hope we are out this Friday, but do not—

Ms. EISEN. I know, so you are going to have to hurry. But nonetheless, I would suggest that final passage of the Workforce Investment Act that was established in 1998 in order to consolidate dozens upon dozens of programs that run things like One Stops and other public systems should be passed and signed into law. I do not know if there are still issues to work out in conference, but it will be shortly. I say that because our public training system is the only one that really gets to people like Ms. Moore and allows them—it is small, it is only somewhere between 11 and 13 million dollars a year. I mean you can put that in a wing of some new weapon, but at any rate, it is there. Again, there has been an attempt by this Administration, I give him credit, to bring a dual system approach to this public system, making both the customers, the job seeker and the business and bring that together and create this extraordinary One Stop system that is beginning to work. It takes time but it does need to be reauthorized and it does need to have business services in it, because the people left out have been the small businesses. That is where the jobs are and that is where the outreach needs to be.

Chairman SCHROCK. You are obviously traveling all over the country talking to manufacturers—and I know I am not allowed to say the word factories, so what—

Ms. EISEN. No, you are not.

Chairman SCHROCK. I am not, I know that. It is not politically correct. What do you tell people who work in a manufacturing environment who worry about their long term economic security?

Ms. EISEN. I say there is probably no security in any job anywhere. I am asked that all the time. I am asked that by union workers, I am asked that by non-union workers and by our own manufacturers. The truth is we live in a tumultuous, agitated world economy. I do not see that ending.

I think the Undersecretary again made a very clear picture of that. It is what it is. Become flexible, become skilled so you can do lots of different things, as Ms. Moore has learned to do, and you may have to be mobile. We are not seeing—you know, manufacturing is coming back. It is coming back, not however, on the big macro picture but it is coming back in specific industries and in regions. In due course, we are going to see regions in this country competing as much against each other as we are going to see them competing with countries around the world. And each region has to look at what its skills are and what it can provide in order to come off on top. But there is no—I am afraid there is no sweet answer to a stable—what is stable today? Healthcare? I do not think so. What is stable? Politics? No, that's not very stable. There are no more stable industries any more.

So I say get out there, it is white water all the way, and learn to swim in it.

Chairman SCHROCK. I did not know politics was an industry, but I guess it is.

Ms. EISEN. Well, sure it is.

Chairman SCHROCK. It is.

Ms. EISEN. I am not sure what the goods you are—I am teasing. It is a great industry.

[Laughter.]

Chairman SCHROCK. You are just saying that because it is true.

Ms. EISEN. It is a great industry.

Mr. DEMINT. Mr. Chairman, I think if you would gavel this official hearing to a close, what I would like to do is get our panelists maybe up here and have some of the folks in the audience and some of the media have a chance to ask a few questions.

Chairman SCHROCK. Sure. I would like that. Let me just say one quick thing. We are not holding this hearing just to hold this hearing. We are holding this hearing because we know there is a problem and people like Congressman Jim DeMint and Congressman Ed Schrock need to go back and scream and holler and get something done about it. That is what we have done with every hearing we have held. We are not here just for the cameras to come and take pictures of the two of us. That makes no sense. There is a problem in this country, it is bad, it is getting worse, and we need to be up there fighting to make sure it stops and we reverse the trend.

So you can rest assured as long as this guy is living and breathing and still elected, I am going to be working to make sure we get this trend turned around and Jim DeMint has been, is and will continue to do the same thing.

So I appreciate the opportunity for me to come to South Carolina and I am delighted to be here with Jim and believe me, we are going to go back an rattle some cages and cages are being rattled and it is starting to affect the leadership on both sides of the aisle, because they are having some members on the Republican side and the Democrat side who say no, we are not voting for that unless this and that happens and I think that is a very good thing. It could bode very well for all of industry in the coming years.

Mr. DEMINT. And let me just add one point. I think the difficulty is that there are a lot of us who in some ways like to recreate a past that maybe never existed at all, and to have some kind of stable job market. We have seen that as long as economies grow, they are going to continue to be in a state of flux, and change is happening so much more rapidly today that what we need to get back to is these workers with the—what is it——

Chairman SCHROCK. Flexaskillability. I am going to use that.

Mr. DEMINT [CONTINUING] Flexaskillability in our education system. But what we hope this hearing will do in addition to giving us some concrete things to go back and work on at the federal level is to focus people locally on the real situation that we face, which is a world economy. There is no way we can put walls around this country or this state and keep that from happening. In fact, with 95 percent of the people in this world living outside of this country, the real opportunity for manufacturers here is to sell to them. But to do that requires better trade agreements, more competitiveness here at home, a whole different way of thinking, particularly with our education system. And so to start thinking differently, to make the best of this century, is what we are trying to do, and to come up with some real solutions.

And all of you folks have been tremendously helpful and you have certainly put some ideas on my notepad that I want to go back and work on.

But Mr. Chairman, if you will close us, I think there are some other folks who would like to ask some questions.

Chairman SCHROCK. Thank you all for being here and we will go to the next phase and this hearing is adjourned. Thank you.

Mr. DEMINT. Thank you.

[Whereupon, at 11:01 a.m., the Subcommittee was adjourned.]

Schrock Small Business Field Hearing
November 17, 2003 – Spartanburg, SC

Opening Statement

I just want to start by saying how pleased I am to be with my friend Congressman Jim DeMint. Jim is a great champion of small business. The people of the 4th District are lucky to have him. In my role as Chairman of the Subcommittee on Regulatory Reform & Oversight of the House Small Business Committee, I often hear from small manufacturers on what it will take to increase the competitiveness of U.S. industry.

Jim has told me what an amazing group of entrepreneurs and community leaders reside in this district. I am anxious to hear from all of today's witnesses. And I want to thank Jim for making this event possible today.

Manufacturers in this country face the same problems as many other small businesses: high energy prices, the high cost of health insurance for employees, the high cost of regulatory compliance, and a tax code that is not always helpful to them. It is incumbent upon Congress and the President to do everything in our power to remove barriers to manufacturers' success and survival.

And Jim and I are working on many initiatives in the House to do just that. We are working on tax relief for domestic manufacturers, we've passed bills to provide Association Health Plans and Health Savings Accounts, and our committee is working to reauthorize the Small Business Administration in a way to make it more helpful to small manufacturers by raising loan limits and encouraging government agencies to buy more goods from them.

With that, Jim, thank you again and I look forward to our first panel.

Grant D. Aldonas
Under Secretary of Commerce for International Trade Administration

Testimony Before the House Committee on Small Business
Spartanburg, South Carolina

November 17, 2003

Mr. Chairman, thank you for inviting me to participate in this hearing to discuss the Bush Administration's plan to boost jobs and help domestic manufacturers. This Administration also appreciates your leadership in raising the concerns of South Carolina manufacturers to the highest levels and making folks in Washington understand the challenges industry is facing. In that role, you have helped both initiate and shape the development of the President's Manufacturing Initiative. I look forward to working with you and other members of the Committee, including Congressman Schrock of Virginia, as we move forward in helping U.S. manufacturers confront the challenges they face in a highly competitive global marketplace.

I would particularly like to draw on your experience, Mr. Chairman, in the effort to attract investment to South Carolina. As I have traveled across the country over the course of the last six months meeting with manufacturers, they have emphasized the need to focus on creating the best possible environment to attract investment in manufacturing here in the United States. South Carolina has been among the leaders in attracting investment, particularly for manufacturing, and there are significant lessons that we can draw from South Carolina's efforts to bring manufacturing jobs from companies like BMW and Fuji film to the United States instead of places like China.

Congressman Schrock, the same holds true for our home state of Virginia. Virginia has had a remarkable record in terms of attracting and supporting industry – a record that I hope we can both draw on and foster as we move forward with implementing the President's manufacturing agenda.

I have been looking forward to today's hearing for another reason as well. It will offer me the chance to review some of our findings from the more than 20 roundtable discussions we held with U.S. manufacturers, both large and small, across the country as part of the Manufacturing Initiative. And, it will allow me to put that initiative and our trading relations, particularly with China, in an appropriate context among the other issues raised by U.S. manufacturers.

In fact, Secretary Evans and I returned from Beijing just two weeks ago. During our visit, the Secretary stressed this Administration's determination to fight for American manufacturers and workers competing in the global marketplace. This translates into fighting for the 4,454 mostly small and medium-size companies in South Carolina that are exporting. We made very clear to the Chinese, as we do with all of our trading

partners, we welcome trade, but we will not tolerate unfair trade practices. I appreciate the support of you, Mr. Chairman, and of Congressman Schrock in reinforcing that message with our trading partners, whether in China or elsewhere in the world today.

The Economic Context

One of the most important things to understand about manufacturing is that it plays a major role in the overall success of the U.S. economy. The Bush Administration understands the importance of manufacturing to our economy, our workforce, and to our future. What the President understands is that manufacturing is at the core of our economy. It represents 14 percent of our gross domestic product and 13 percent of total private sector employment. It also accounts for most of the innovations and advances in technology that are creating the industries and jobs of the future.

Those innovations are key not only for our manufacturing sector, but for agriculture and services as well. Advances in John Deere's cotton-picking equipment manufactured in Des Moines, Iowa, for example, make cotton producers throughout the south and west more efficient and productive. Advances in servers produced by Cisco and Sun Microsystems enable hospitals across the country to offer both higher quality and lower cost health care to millions of Americans. And, nano-technology manufacturing techniques being funded through the National Institute of Standards and Technology have already found their way into the market, offering U.S. semiconductor manufacturers a critical edge in making the next generation of microprocessors.

Having said that, there is a growing perception that American manufacturers are weak, cannot compete, and are being "hollowed out." Much of that stems from the significant pressure that many U.S. manufactures have faced due to the recent recession and stiffer competition from abroad.

That is why I always like to emphasize that, even in the face of significant challenges, American firms have built the strongest, most dynamic manufacturing sector in the world. The United States remains far and away the largest producer and exporter of manufactured goods in the world. Standing alone, our manufacturing sector would rank as the 5th largest economy in the world – larger than the entire economy of China.

Fostering an economic environment that attracts investment in manufacturing is key to maintaining the United States' position as the world's leader in manufacturing. And, the key to attracting that investment is ensuring that we offer a competitive environment from which manufacturers can produce not just for the U.S. market, but also globally. South Carolina's experience is instructive on that point. In 2002, South Carolina saw $9.7 billion in export sales, up 35 percent from the 1999 level of $7.1 billion. South Carolina was the fourth fastest growing exporter among the 50 states from 1999 to 2002. In 2002 alone, firms in South Carolina exported to 184 foreign

destinations. South Carolina's leading manufactured export category was transportation equipment, which alone accounted for $2.8 billion (29 percent) of South Carolina's total export sales in 2002. Other top manufactured exports are chemical manufactures ($1.7 billion), machinery manufactures ($1.3 billion), plastics and rubber products ($805 million), and computers and electronic products ($573 million). Those figures translate into jobs for South Carolinians, as well as a higher standard of living throughout the state.

That is why manufacturing not only matters, but is worth fighting for. Fortunately, the stimulus of the 2001, 2002 and 2003 tax cuts has softened the blow from the recent recession and set the stage for vigorous economic growth going forward. Indeed, in the third quarter of this year, the U.S. economy expanded at an extraordinary pace of 7.2 percent – the best economic growth in almost 20 years. It now appears that manufacturing, after many months of very slow growth, is beginning to participate in the broader economic recovery. The most recent Institute of Supply Management, which tracks growth in manufacturing sector shipments through its Purchasing Manager's Index has registered 4 consecutive months of strong growth and projects stronger growth in manufacturing sales ahead.

Even on the employment front, there are very good signs of job growth consistent with a stronger economy. The most recent figures from the Labor Department showed that the unemployment rate, at 6 percent in October, has trended down since mid-year. Over the past three months, the national economy has added 286,000 jobs and the unemployment rate has fallen 0.2 percentage points.

Just to put that in perspective, virtually all economists agree that due to rapid policy responses, the recession was shallower than most and unemployment, with the exception of a rise to 6.4 percent in June of this year, generally stayed within 5.6 and 6.1 percent throughout the early stages of the recovery. Not long ago, according to an article in the Wall Street Journal, then-President Clinton was encouraging the Congress to take a hard look at our unemployment insurance programs on the grounds that we were at full employment by historical standards – at the time President Clinton made that statement, unemployment stood at 6.8 percent. We are now at 6 percent.

Recessions are particularly harsh on manufacturers – in the last seven post-World War II recessions, total output has fallen on average by 2 percent, while manufacturing output has fallen by nearly 7 percent. That said, the effect of the recent recession has had a more severe effect on both sales and employment than most economists expected. For example, although the decline in manufacturing output seen during the recession itself was relatively mild and short-lived, there has been little growth over the past year and a half despite moderate gains in broader measures of output.

The effect in employment has been even more pronounced. The manufacturing sector lost well over 2 million jobs during the recessionary period. What has surprised most economists has been the fact that manufacturing has continued to shed jobs even

during the recovery. While the recovery in overall employment appears to have begun in earnest, the manufacturing sector is still losing jobs, although at a much slower rate.

What that points to is more fundamental and structural changes under way in manufacturing, both in the United States and globally. One of the causes, ironically, is the same rising productivity that is key to maintaining U.S. competitiveness in manufacturing. Employment in manufacturing has been declining for over three decades due to productivity gains throughout the U.S. manufacturing sector. American manufacturers are finding ways to do more with less, meaning it now takes considerably fewer hours of labor to produce the same quantity of output.

In the last two years, however, productivity growth has accelerated yet further. The increase in manufacturing productivity during the last two-year period, as the economy began to recover, was higher than any two-year period since 1977. In effect, while those productivity gains have helped manufacturers regain their competitive position, they have also meant continuing job losses in the manufacturing sector as a whole.

Stronger economic growth will eventually result in greater hiring, even in manufacturing, but much will depend on the level of business investment. Business investment is still recovering from the excesses of the late 1990s. That too is reflected in the job figures. The most recent job losses in manufacturing began in 2000 when the manufacturing sector entered into a recession about 10 months earlier than the economy as a whole.

The reason for the manufacturing sector's early entry into recession was largely due to a sharp drop in business investment as industry pulled back from a period of heavy investment in technology. Not surprisingly, the industries with the most significant job losses in manufacturing are precisely those industries – telecommunications equipment and computing – that benefited most from the boom in investment related to the "dotcom bubble" of the late 1990s and then fell when that bubble burst and the stock market began to decline sharply.

In addition, since the Asian financial crisis of 1997, our manufacturers had seen slower growth in many of their strongest export markets. While Europe and Japan have shown signs of growth recently, they still remain far behind the pace of the American economy. And, the rest of Asia, with the exception of China, has yet to recover to the same rate of growth it saw prior to the financial crisis. What that has meant is both a stronger dollar, with obvious implications for both our exports and for stronger import competition, and less demand for our exports, particularly in those categories, like capital goods, in which U.S. firms retain a broad competitive edge.

In addition, the competition in manufacturing is now global as never before. The combined effects of rapid changes in communications, new transportation technology, the

end of Cold War economic divisions, and the global lowering of trade barriers, have made the global market place a modern reality. In practical terms, that means expanded markets for U.S. exports, but also stiffer competition in manufacturing, both in export markets and, here at home, from imports.

World trade statistics bear that out. In 1980, the United States, Europe, and Japan accounted for roughly 75 percent of world exports of manufactured goods. Twenty years later, they account for 60 percent of world exports of manufacturers – a drop of 15 percentage points. Some 7 percent of that share went to the Asian "tigers" of Singapore, Taiwan, Hong Kong and Korea. But, by far the largest share went to China, which has increased its percentage of world exports from near zero in 1980 to 5.3 percent in 2001.

More global competitive pressure has meant continuing downward pressure on prices and profit margins due to the excess capacity on the market for manufacturers worldwide, not just in the United States. That is why a recent study by Allied Capital Management showed that China had actually lost more in the way of manufacturing employment than the United States over the last 15 years in percentage terms.

In short, our manufacturers are facing a competitive environment and we should foster an environment in which our firms can compete and succeed in manufacturing. That is why President Bush and everyone in his Administration are committed to working towards an economic climate where everyone who wants a job has that opportunity and our manufacturers remain on top in terms of their competitiveness.

The President's Manufacturing Initiative

The foregoing discussion helps set the context for the President's Manufacturing Initiative. In March of this year, during Manufacturing Week, Secretary Evans had the opportunity to speak before the National Association of Manufacturers in Chicago. At that time, he announced the President's Manufacturing Initiative. As a part of that initiative, Secretary Evans directed me to lead a comprehensive review of the issues influencing long-term competitiveness of U.S. manufacturing. The central goal of the review is to develop a strategy to ensure that government is fostering an environment that promotes a dynamic manufacturing industry.

The Commerce Department's senior management, including Secretary Evans and Deputy Secretary Bodman, all pitched in. We held roundtable discussions with manufacturers in the aerospace, auto, semiconductor, and pharmaceutical sectors, among others, in more than 20 cities across the United States – from North Carolina to Columbus, Ohio, to Detroit to Los Angeles – to develop the report and recommendations.

What we heard from manufacturers in terms of the challenges they face was significant. While the international competition is what has garnered most of the

attention in the press, by far the greater weight of the manufacturers' comments focused on domestic issues – what I call "keeping our side of the street clean." What I mean by that is simply paying attention to the needs of our manufacturers as we develop legislation or implement regulations. It is the steady accumulation of multiple burdens, rather than a single cause, that has had the most severe impact on the competitive environment in which our manufacturers operate.

The list of issues our manufacturers identified should not surprise anyone who has taken a serious interest in manufacturing. While our manufacturers have tightened their belts and raised their productivity in an effort to remain competitive and, in fact, to succeed in the day-to-day competition in the marketplace, they have seen that advantage and the hard-won productivity gains eroded by everything from higher energy costs to higher medical and pension costs to higher insurance costs due to a run-away tort system.

Just a few examples might suggest why manufacturers have seen their costs rise. We heard from manufacturers in New Jersey that 30 cents of every dollar of revenue went to pay health benefits for employees. Manufacturers gladly pay for their employee's health benefits because they see their own interest served by a healthy and motivated workforce, but if we are serious about manufacturing, we have to be serious about grappling with the underlying drivers that have created 145 percent increases in health care insurance costs that obviously are not sustainable indefinitely.

In Michigan, I met with auto parts suppliers that faced continuing pressure from the auto companies to lower their prices by 20 percent or face the prospect that the auto companies would turn to overseas sources of supply. The concern those parts suppliers reflected involve the terms on which they compete with those overseas suppliers, particularly in China. But the auto parts suppliers knew that the ultimate source of the problem lay in an auto industry that is grappling with the same sorts of legacy costs that burdened the steel industry. If we are serious about manufacturing, then these industries will have to get those financial obligations under control.

In Columbus, Ohio, Des Moines, Iowa, and in my hometown of Minneapolis, Minnesota, I met with manufacturers in the plastics and adhesives businesses that are heavy users of natural gas. The companies in the plastics businesses in particular risk seeing whole new markets fall to their foreign competitors who see lower natural gas prices. If we are serious about manufacturing, we have to adopt a national energy plan that will help us access new sources of supply and improved transmission to reduce the cost of energy to our manufacturers as well as to consumers.

Another example we heard from virtually every manufacturing trade association we met with was the need to eliminate the complexity and the disincentives our tax system creates for investing in manufacturing in the United States. A number of issues fall in that category. Take the bias in the current tax code against equity financing, which raises the cost of capital, thereby reducing the investment. This bias also translates into a

preference for debt, which yields highly leveraged companies and a highly leveraged country, all the while encouraging the worst sorts of gaming as clever tax lawyers try to find ways to take what is an equity interest and call it debt in order to qualify for an interest deduction. Taken together, even without cutting rates, reforms of the tax code could make a profound difference to the relative attraction of investing in manufacturing in the United States.

But, perhaps the most egregious example comes out of the tort system in this country. One issue, in particular, stood out among the manufacturers' concerns about the tort system. That was the ongoing asbestos litigation. There, the continuing litigation has yet to help many individuals who were harmed by prolonged exposure to asbestos, while, at the same time, the litigation hangs over virtually all U.S. manufacturing, raising their insurance costs and dampening their returns. Clearly, if we are serious about manufacturing, we have to get serious about reforming the tort system.

Manufacturers also pointed to declining vocational school programs, declining enrollments in engineering and the funding of scientific research, all of which are essential to the productivity gains that keep our manufacturing sector competitive and keep a skilled workforce employed. This Administration is committed to investing in the types of retraining programs our workers need to develop the skills in our transitioning economy.

In addition to keeping our own side of the street clean, U.S. manufacturers demanded a level playing field internationally. What that means in practical terms is three things. The first, as Secretary of Treasury Snow has indicated is exchange rates that reflect the economic fundamentals, not government intervention. The second is an effort to eliminate tariff and non-tariff barriers to our exports through negotiation with our trading partners. And, the third is the vigorous enforcement of both the existing trade rules and U.S. trade laws. The goal is simply to ensure that everyone on the field is subject to the same rules of the game.

A good example is the WTO agreement barring the theft of intellectual property. Piracy by foreign manufacturers, particularly in China, for example, is a chronic problem for all U.S. manufacturers. In the case of our domestic textile industry, theft of intellectual property in the form of patterns and designs costs U.S. textile companies $100 million or more annually in lost sales.

The Administration is more than willing to exercise the legal remedies available under the WTO and U.S. law. That said, we have also pursued, with the Chairman's support, other more practical means to address the problem. As I know you and other members of the Committee are aware, Mr. Chairman, over the past year, a group of specialists from the International Trade Administration, the Patent and Trademark Office, the Copyright Office, and U.S. Customs has worked with our industry with your encouragement to develop new means for protecting the industry's intellectual property.

For example, to help enforce rule of origin requirements in import preference programs and eliminate transshipment, the Commerce Department contracted with the Oak Ridge Laboratories to identify potential "marker" systems to help make origin determinations. Three technologies were determined by Oak Ridge to show promise: UV Flourescence, Nanophosphors, and DNA based systems. Industry has also worked with the Department of Agriculture to test the practicality of such a system. We anticipate that further work will be done to develop these technologies and make them available to our industry.

We are also working with industry to address the efforts of other governments to confer an unfair competitive advantage on their industry through the vigorous enforcement of the trade laws, and through consultations with the governments involved. Virtually all of the manufacturers I met with in the course of past six months indicated that they were prepared to compete head-on with anyone in the global marketplace; what they were not prepared to do was compete against foreign governments as well.

In other words, what I did not hear from the vast majority of manufacturers I met with was an interest in outright protection, whether in the form of tariffs or quotas. Rather, our manufacturers see international trade as a simple question of fairness. If we keep our markets open to our trading partners goods, they should do the same for us. But, where our trading partners' do not live up to the terms of our agreements or otherwise heed the rules, our manufacturers expect that those trading partners should pay a price. And, that is a pretty good summary of what the Administration's trade policy is all about.

While we are still in the process of finalizing the manufacturing report and its recommendations across many fronts, Secretary Evans has taken steps to respond to the concerns we heard from manufacturers, particularly the need for a stronger focus within the U.S. government on manufacturing and the most immediate cases of unfair trade affecting our manufacturers. The first initiative, announced by the President on Labor Day, is a new Assistant Secretary of Commerce to serve as the point person in the Administration and within the U.S. government for manufacturers and as an effective advocate for the manufacturing sector's competitiveness.

The second would call for the creation of an Assistant Secretary for Trade Promotion to boost our exports, particularly to those markets that our negotiators have recently opened to our trade like China. Currently, the Department of Commerce, through its Office of Textiles and Apparel (OTEXA), administers an aggressive export expansion program for the textile and apparel industries. The program includes sponsorship of U.S. companies in overseas textile and apparel exhibitions, trade missions, export seminars, export counseling, and a comprehensive "Export Advantage" database offering a variety of information to U.S. exporters. While the program has resulted in a number of "success stories", textile companies in this District have not participated in our

export promotion activities. I would urge them to work with us to further integrate themselves into the global marketplace.

And, the third is the establishment of an Unfair Trade Practices Team to track, detect, and confront unfair competition before it injures an industry here at home. Many of the legal remedies available to counter unfair trade practices are costly, particularly for small and medium-sized manufacturers. Our goal is to focus on those trading practices that are likely to have the biggest impact on our manufacturers and ensure that they are eliminated, rather than leaving small and medium-sized manufacturers in the United States with costly trade litigation as the only possible means of addressing the unfair trade practices they face in the marketplace.

In addition to moving on the implementation of those recommendations, we intend to do two things to follow up. The first is to go back to the manufacturers we visited earlier this year to get their reaction on what we have suggested and to help us refine our approach as we move forward. The second is to discuss the next set of issues we intend to tackle as part of our on-going commitment to support our manufacturing sector.

Our Trade Relationship with China

The last topic I would like to address is our trade relationship with China. In the more than 20 roundtables the Department held with manufacturers across the country over the past six months, there was no single topic that garnered more attention than China. The stakes involved are high. China is our fourth largest trading partner. Bilateral merchandise trade reached $147.2 billion in 2002. Last year, China overtook Japan to become our third largest source of imports. In July of this year, China surpassed Mexico to become our second largest source of imports. Our imports from China are more than five times greater than our exports. The bilateral trade deficit hit $103 billion in 2002 and reached $65 billion in the first seven months of this year.[1]

A large share of what we now import from China used to be imported from other Asian countries. China's role in the restructuring of global manufacturing is that of the final assembly point for most Asian electronic equipment destined for the United States China becomes the exporter of record for what before would have been export to the United States from other Asian countries. What that means in practical terms is that it would be more appropriate to look at our trade account with China as an indicator of competition in manufacturing across Asia, as opposed to the rise of Chinese manufacturing alone.

1 Interestingly, despite the attention focused on our bilateral trade deficit with China, our bilateral trade deficit with Europe has grown more quickly in recent years than that with China and our bilateral deficit with Japan remains as high as ever. That simply tends to confirm that what we are seeing in our trade accounts is largely driven by disparities in growth that show up as lower exports to and continued high imports from slower growing economies, and stronger growth in exports to faster growing markets.

There is an obvious upside to China's growth and the benefit the Chinese derive as investment in Asia shifts toward China for final assembly. That shift, together with China's economic policies, has brought about a rising standard of living in China and a considerable rise in disposable income for the average Chinese -- in turn creating -- a consumer demand that did not previously exist in China. What that means is an expanding market for goods and services, as opposed to the largely one-way street of the past. The fact that China's trade is nearly in balance overall, even though it runs a huge surplus with the United States, reinforces the point about rising consumer demand and growth in imports.

All of this makes China an attractive market for much of what we produce in the United States, including for our manufacturers. China's extraordinary economic growth – currently estimated to grow 8.6 percent this year and another 8 percent in 2004 – right now is the engine of the world economy outside of the United States. What that means in trade terms is that China today represents the fastest-growing market for U.S. goods and services. Our exports to China surged by 19 percent in 2001, 15 percent last year, and by more than 20 percent in only the first 8 months of this year.

We are, moreover, far more likely to sell the sorts of capital equipment in which we have a comparative advantage in China than in most world markets based simply on the growth in the Chinese economy and the nature of that growth. If, for example, we continue to see the construction industry boom in China and a major investment in infrastructure to link the western Chinese provinces with the coast, companies like Caterpillar will find a growing market for what they sell to China. The same is true for Boeing.

Here, it is worth stressing that we need companies like Caterpillar and Boeing to succeed in the Chinese and other overseas markets because their supply chains are filled with what are known in business as tier 3 and tier 4 suppliers. Many of those suppliers are small and medium-sized (SME) businesses that do not export directly, and the future success of these suppliers depends on whether Caterpillar and Boeing remain globally competitive.

But, it is not just the Boeings and Caterpillars of the U.S. manufacturing sector that see growth in the Chinese market as an opportunity. Direct exports by small and medium-sized businesses in the United States have grown as well. For example, Bitrode Corporation is a Fenton, Missouri, company that manufactures equipment used by the battery manufacturing industry. Last year the company sold equipment to China to the tune of $1.5 million. The company says their exports to China are growing about 15 percent annually, while their sales in the United States are holding even at best.

Similarly, Numatics, a Highland, Michigan, company that participated in a Commerce Department trade mission in early May, 2002 to China, develops and

manufactures components for automated machinery used in many branches of industry, including automotive, petro-chemical, aerospace, and medical equipment. It was able to sign deals with four new distributors, each covering different geographic regions of China.

To create more small business success stories, as illustrated by Bitrode and Numatics, Secretary Evans and his counterpart at the Ministry of Commerce have agreed to discussions fostering greater participation by SMEs in our bilateral trade prior to the next meeting of the JCCT in December.

One of the basic reasons for negotiating for 15 years with the Chinese over their accession to the World Trade Organization was to ensure that we would knock down the many barriers to entering China's market. The situation facing our manufacturers from a competitive perspective was far worse prior to China's entry into the WTO. Our manufacturers lacked access to the Chinese market, but their manufacturers had relatively free access to ours.

Today, by virtue of the WTO, the tariff rates that China imposes on our exports are lower on average than most of the developing, and in some instances, the developed world. In addition, the WTO agreement obliges China to protect the intellectual property of U.S. manufacturers and service suppliers. The agreement also phases out many of the barriers to the free distribution of American goods throughout the Chinese economy. American goods are becoming freer to move through a variety of channels instead of being beholden to trading through a Chinese state enterprise as in the past; our manufacturers are finding new opportunities in the Chinese market.

In the first year following China's accession to the WTO, I think both Congress and the President showed an extraordinary amount of patience as China reviewed literally thousands of laws and regulations in an effort to make the necessary changes to bring them into compliance with WTO rules. Now, as we move deeper into the second year of China's participation in the WTO, we need to see actual enforcement of those laws and basic compliance with WTO rules in other areas. I know that the President, Ambassador Zoellick, Secretary Snow, and most recently Secretary Evans have all made that point vigorously with their counterparts in China. And, I can attest that, at a working level, the rest of us have taken up the cause just as vigorously.

But, there is still a very, very long way to go. And, that distance goes to the heart of the complaint many manufacturers have about China. It is the pace of the ongoing reform of the Chinese economy toward a market model, of which the implementation of the Chinese WTO obligations is a part that causes friction within our trade relationship. The WTO rules, and, indeed, the whole concept of trade are based on free competition in the marketplace. But, where one economy is organized under principles that are inconsistent with that free market model, it can cause an enormous amount of injury and

friction within our trading relationships. That is, in my view, the current situation with China and the key message that the Secretary articulated in Beijing last month.

I recognize that many commentators see a demand for a level playing field, as a demand for protection, but that is not the case. As I said, what most U.S. manufacturers want is simply to ensure that the game is not rigged against them. That same basic maxim extends to our trade with China. We all recognize that we are far better off in a world in which the rules are observed and the competition is fair, than in a world segmented by trade barriers with less trade and slower economic growth for all. But, that depends on our trading partners, including China, complying with the rules and letting competition between companies decide the game.

While the argument most frequently raised about China by commentators seems to be the difference in wage rates, most of my conversations with manufacturers, particularly in hard-hit industries like textiles, suggest otherwise. What commentators unfamiliar with the U.S. industry often do not understand is that, today, the textile sector is actually very high tech and capital intensive. There is very little labor involved in many products that come out of the industry and wages are a relatively small portion of the total cost of production except in the case of products that require considerable hand stitching.

The truth of that statement was brought home to me in a conversation with a North Carolina manufacturer of textile products used in the luggage industry. Most bags today are made with some form of rip-stop material, none of which is hand sewn. Nor is the frame of most roll-on bags manufactured by hand. Yet, the North Carolina manufacturer showed me 5 suitcases, one nesting inside the other that sold for a total price – delivered from China – of under $30. In other words, the total cost of the five bags was below the North Carolina manufacturer's cost of materials alone.

The point to that story is simply that it is not wages alone that allowed the Chinese manufacturer to sell the 5 pieces of luggage for a delivered price of less that $30. The cost of most of the materials is determined in world markets. So if the Chinese economy were open to international trade and competition, then the Chinese manufacturer's materials costs would be comparable to that of the U.S. costs.

This means that to get the delivered price down to below $30 there is likely a large amount of government subsidy, express or implied, to the manufacturer. Such subsidies can take the form of an outright cash grant to the exporter, but more often will take the indirect form of tariff protection against competition, the forgiveness or rebate of taxes, or the continuing extension of credit to noncredit worthy enterprises.

In my view, although the textile industry is commonly criticized for seeking protection based on the past 40 years of quotas, the complaint that has led the industry to seek safeguards against Chinese imports stems from a different motive. There is no real

argument that the Chinese market actually operates fully on a market basis. Thus the reasons for the U.S. industry's request for help stem from that simple difference between the pressures they face in our market on a day-to-day basis and the pressures that their Chinese competition does not.

What that also points out is the fact that, in addition to pressing the Chinese at every opportunity on their compliance with their WTO commitments, we also have to be extraordinarily vigilant regarding the injurious effects of other forms of government support for Chinese industry that are not covered by current WTO rules. Those sorts of practices require a different type of tool – one that requires digging out the facts regarding the underlying competitive differences that our industry faces in terms of import competition from China.

As I noted above, the textile industry is not alone in facing Chinese subsidies and protection. Other industries like tool and die and U.S. foundries face similar competitive conditions. That is why one of the most forward-leaning recommendations we intend to make regarding our trade is the establishment of an office in the Commerce Department, the sole function of which will be to investigate these sorts of practices. When we find these anti-competitive practices, we will vigorously seek their elimination by the Chinese and by other trading partners.

The one thing I can assure you is that the Department of Commerce is dedicated to making sure China does play by the rules. We continue to vigorously pursue China's compliance with its WTO commitments and enforce our domestic unfair trade laws rigorously and fairly, as both President Bush and Secretary Evans have made clear. And, that was the single most important topic of conversation with our Chinese counterparts last month.

The Department of Commerce's Role in Trade With China

The Department of Commerce, in close coordination with USTR and other agencies, has adopted an aggressive and multi-pronged approach to ensure that China honors its WTO commitments and that U.S. companies benefit from these opportunities. We will target unfair trade practices wherever they occur. We are exploring the use of new tools to expand our trade promotion activities in China. We are expanding efforts to engage Chinese officials to make sure they "get the rules right" as they continue their enormous task of restructuring their economic system.

However, keeping our focus on China's WTO implementation and the country's other trade practices is only part of the solution. We must continue to enhance the ability of U.S. businesses to compete in China. We are increasing our efforts to ensure that U.S.-developed technical standards are accepted in China just as they are throughout the world. We are launching "Doing Business in China" seminars in cities across the country to address concerns about the Chinese market from small and medium-sized businesses.

We are exploring ways to develop more trade leads in China and to provide even more targeted information on opportunities in China for companies in the U.S.

Combined with these domestic efforts, we regularly engage Chinese government officials to ensure trade agreement compliance and market access for our products and services. As I mentioned earlier, Secretary Evans visited China in late October to advance U.S. interests and advocate for a level playing field in our economic relations with China. The Commerce Department is fully committed to ensuring that China comply with WTO rules, open markets, drop barriers, eliminate state subsidies and allow market forces to determine economic decisions. During the Secretary's meeting with the Ministry of Commerce in Beijing, he and his counterpart agreed to launch a dialog on China's industrial restructuring and its impact on our bilateral trade under the auspices of the JCCT. I met this past week with my Chinese counterpart in Detroit to reinforce those points and build on our discussion in Beijing. We will have another opportunity to raise these and other outstanding issues during the 15^{th} JCCT to be held in Washington in early December.

As I said, there is a lot at stake in our trading relationship with China, and there is no other solution than to roll up our sleeves and get to work on the problems in front of us. That concludes my testimony. I would be pleased to answer any questions that you may have.

U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON SMALL BUSINESS

Testimony of Daniel Young, CEcD
Managing Director
Business Development Division
South Carolina Department of Commerce
Monday, November 17, 2003

Introduction

Manufacturing is the backbone of the South Carolina economy. The manufacturers of the state pay the property taxes that educate our children and provide local government services. As recently as 1998, more than 360,000 South Carolinians were employed in manufacturing. More than 20% of the state's non-farm employment was in the manufacturing sector. In September of this year, the South Carolina Employment Security Commission estimated that 270,000 South Carolinians were employed in the manufacturing sector or 15.3% of the state's non-agricultural employment. This represents almost 90,000 few manufacturing jobs lost in 5 years and 19,000 fewer manufacturing jobs than a year ago. Hardest hit is the non-durable goods sector where 8,000 fewer people are employed this year than last year. The textile industry alone lost more than 9% of its employment in the last year. Many of these jobs move off-shore where labor is a fraction of what it is here. Still others are simply lost.

In order to offset these losses the state aggressively recruits new industries through a myriad of marketing tools; i.e., direct mail, marketing trips and trade shows. As a result of these efforts, more than 100,000 new jobs and $21 billion of capital investment have been announced since 1999. Over 80% of which was in the manufacturing sector.

The state also operates offices in Japan and Germany that actively market the state to companies in the region that may be looking for a North American location. In 2002, the state successfully recruited $1.8 billion in capital investment and 4,900 new jobs from new and expanding existing industries. Internationally known firms such as Fuji Film, BMW, Michelin, Mitsubishi, Bridgestone/Firestone, and Robert Bosch, have a major presence in the state. Michelin's North American Headquarters is Greenville, South Carolina. South Carolina ranks second in the nation to Hawaii in percentage of workers that work for an international company.

Not only does the state, through the Department of Commerce, work hard to recruit new industries but through the Department's new Business Solutions Division, it works to make sure that, once they are located here, they are profitable. Trade managers work with existing industries to identify new markets for manufacturers overseas, then facilitate the process of international trade.

The state has also implemented an aggressive policy regarding tax incentives for both new and existing industries that are making investments and creating new jobs. These are designed to

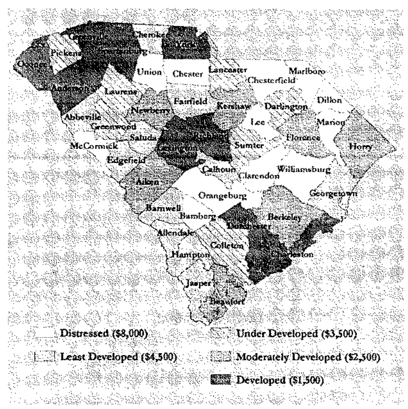
reduce both start-up costs, crucial for new industries, and long-term operating costs. Recognizing that branch manufacturing facilities are often competing internally with each other for expansion dollars, materials are readily available to existing industries outlining the benefits of the state's incentive programs. A reduction in property taxes may be the difference in bringing an expansion to an industry in rural South Carolina or watching it go to another branch facility.

Unfortunately, we have no incentives, per se for job retention. We do match dollars manufacturers spend retraining production workers in order to remain competitive.

What Are Incentives?

When companies are looking for a new site, incentives are tie breakers. They are used as a way to differentiate sites that are otherwise similar by reducing upfront costs and/or the long-term, on-going costs of doing business. Infrastructure such as water and sewer lines, that brings a site on par with another, competing, site is generally not considered an incentive. They are frequently just as important to existing industries as they are to new industries.

Jobs Tax Credit Designations



In South Carolina incentives are performanced based; i.e., companies must create jobs and make new investments in order to benefit. They are also structured to provide greater benefits to companies locating in more rural and economically distressed areas of the state.

Corporate Income Tax Credits for Job Creation

South Carolina has a several different corporate income tax credits in place. The most commonly used by industry is the Jobs Tax Credit. This program has been used as a model by other states. It provides qualifying companies a credit against their corporate income taxes based on the creation of new jobs. In order to target more economically disadvantaged areas for additional incentives, the state's 46 counties are broken into 5 categories, based primarily on 3-year averages of unemployment and per capita income. This ranking, or tiering, of the counties is also used to determine incentive values for the Job Development Credit.

The value of the credits range from $1,500 per new job for five years in Developed Counties to $8,000 per new job for five years in Distressed Counties. In addition, a county can designate the property a "multi-county industrial park" and increase the credit's value $1,000 per new job for each of the five years. Industries can use this credit to eliminate 50% of their corporate income tax liability in the state.

Manufacturers, processors, distributors, corporate offices, tourism projects, and, qualifying service facilities, including any located in Least Developed and Distressed Counties, that create a minimum of 10 net new jobs in one year based on their average monthly employment from one year to the next are eligible for the credit.

Sales Taxes

South Carolina offers a number of sales tax exemptions that provide important up-front savings as well as longer-term operating expenses. Among those most important to manufacturers are exemptions on:

- Equipment used in the manufacturing process;
- Raw materials;
- Electricity and fuels used in the manufacturing process;
- Packaging materials;
- Pollution control equipment; and
- Material handling equipment for projects investing $35 million of more.

Across the southeast the range of exemptions offered manufacturers ranges widely. Almost every state offers manufacturers exemptions on materials and equipment. Some states, such as North Carolina, only offer partial exemptions on electricity and fuels. Georgia, among others, provides an exemption on construction materials. This is an especially important exemption

Fee-in-lieu

The fee-in-lieu of property taxes gives counties the flexibility to reduce the property tax liability for companies investing $5 million or more. (Note: In counties where the unemployment in each of the last two years has been twice the state average, the minimum threshold is reduced to $1 million). Companies can negotiate a 20-year agreement that can reduce the assessment ratio to 6% and with the millage either locked for the entire length of the agreement or varying every five years.

THE SUPER OR ENHANCED FEE-IN LIEU

Companies that meet the criteria for a Super or Enhanced Fee-in-lieu may negotiate a thirty-year agreement with an assessment ratio as low as 4%. To qualify for the Super or Enhanced Fee a company must:

- Investing $600 million state wide;
- Investing $400 million and creating 400 net new jobs; or,
- Existing industries that have previously invested $200 million and have 200 existing jobs that invest $200 million and create 200 new.

The Importance of the Fee-in-lieu and Special Source

Despite the 5-year abatement that manufacturers not negotiating a fee-in-lieu agreement are entitled to, the 10.5% assessment ratio that manufacturers must pay on both their real and personal property puts South Carolina at a decided cost disadvantage with our neighboring states on property taxes. Manufacturers will pay substantially more per year in property taxes in South Carolina with an abatement than they will in neighboring counties. Even with the Fee-in-lieu that same company may pay more in South Carolina than they would just across the border in North Carolina or Georgia *before* counties in those states begin negotiating property tax incentives.

Special Source Revenue Bonds and/or Credits are also essential to the recruiting process. This incentive gives counties the flexibility to reduce an industry's up-front cost by allowing them to participate in the cost of land and infrastructure for the project.

Job Development Credits

In 1995, a time when the state was facing military base closures in Myrtle Beach and Charleston, the lay-off of thousands of workers at the Savannah River Site and a decline in textile employment, the General Assembly passed the Enterprise Zone Act. This landmark legislation created what would later become the Job Development Credit, a credit not against corporate income taxes but against the withholding taxes of employees. Charts 2 and 3 clearly illustrate the impact the incentive has had on business activity in the state.

The Job Development Credit allows qualified, approved, companies to use a portion of their employees' state personal withholding taxes to offset capital costs and training costs associated with a project. They can use these credits for up to fifteen years. The amount the company can retain is based on the employees' wages.

Realizing some of the inequities of the original law, in 1996 the Legislature passed amending legislation that allowed companies

Chart 1
Total Announced Capital Investment

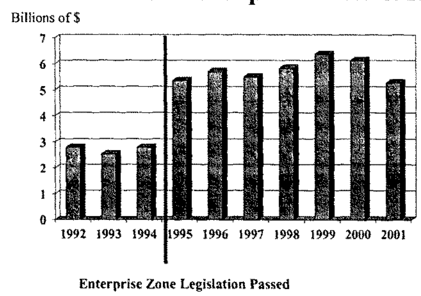
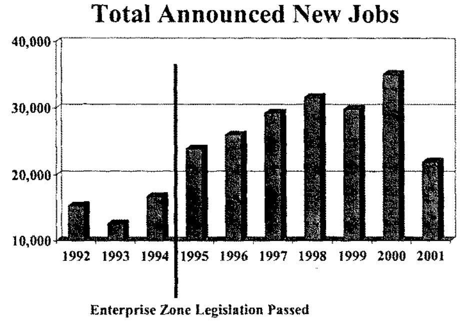


Chart 2
Total Announced New Jobs



across the state to take advantage of the incentive. In order to insure counties most in need received greater assistance, the amendments created a tiered system, based on the Jobs Tax Credits designations. Table 1 shows how county designation affects Job Development Credit calculations.

QUALIFICATIONS

In order to qualify and use the Job Development Credits companies must meet the following criteria:

1) They must qualify for the Jobs Tax Credit;

2) They must file a formal application with the Coordinating Council including a $4,000 application fee;

Table 1

Jobs Tax Credit Designation	% of Max.
Distressed & Least Developed	100%
Under Developed	85%
Moderately Developed	70%
Developed	55%

3) The project must pass a cost/benefit analysis developed by the State Budget & Control Board;

4) They must offer employees health benefits;

5) When locating in a county not designated Distressed or Least Developed, the company generally must pay wages that are above the county's per capita income; and,

6) Enter into a legally binding contract, referred to as the Revitalization Agreement, that includes the eligible expenditures the state will reimburse the company for and minimum investment and job creation levels. No company is allowed to collect these credits until it meets the agreed upon levels of investment and jobs.

The portion of the maximum Job Development Credit a company can retain in counties designated as Developed, Moderately Development and Under Developed is deposited in the Rural Infrastructure Fund. By law, the majority of the Fund must be used to fund infrastructure in Least and Distressed Counties.

CONCLUSION

South Carolina has many statutory and discretionary tax incentives that allow manufacturers to lower the cost of doing business. Are these incentives enough to offset wage rates that are a fraction of those found here in South Carolina. No, absolutely not. But they do make the state more attractive for industries that must be located in the U.S. because of proximity to markets and shipping costs.

CENTER FOR Workforce Success
The Manufacturing Institute

NAM National Association of Manufacturers

TESTIMONY TO U.S. HOUSE COMMITTEE ON SMALL BUSINESS
NOVEMBER 17, 2003
CHAIRMAN ED SCHROCK (R-VA) PRESIDING

Thank you Mr. Chairman. I am Phyllis Eisen, Vice President of the Manufacturing Institute of the National Association of Manufacturers. We are the nation's oldest and largest industrial trade association representing 14,000 member companies and 350 member associations serving manufacturers and employees in every industrial sector in all 50 states. Approximately 10,000 of our members are small and medium-sized manufacturers.

On behalf of the NAM, I thank the Chairman for this opportunity to discuss the importance of manufacturing to our country and the unprecedented challenges that today threaten our competitive leadership in manufacturing.

This review is critically needed because manufacturing and its workers are in crisis. The recent economic downturn was no ordinary recession for manufacturing – we lost 2.7 million jobs over the last 38 consecutive months, and between July 2000 and December 2002, manufacturing lost jobs in 49 of the 50 states. In South Carolina, manufacturing makes up 20.5% of the state's GSP growth rate, but since July 2000, South Carolina lost 63,500 factory jobs. That is a loss of 18.9% of the state's manufacturing employment.

Yet any review of manufacturing must be comprehensive and take into account the fundamental changes that have taken place in manufacturing. These changes stem from advances in technology, globalization and workforce demographics.

In the 1950s the top three manufacturing industries were food, primary metals, and motor vehicles and equipment. Now, at the beginning of the 21st century, it's chemicals, industrial machinery and equipment, and electronics and electronic equipment. The composition of American manufacturing has changed over time because of technological breakthroughs, shifting demand patterns, and international competition.

Today's manufacturing plants are clean, computer-generated, quality-oriented facilities where workers have high, in-demand skills such as problem-solving, the ability to think analytically, team-building, and a thorough knowledge of computers. They are required

to think for themselves and their teams and to take responsibility for their actions and the quality of their work.

Technology and innovation have played a seminal role in the changing nature of manufacturing, and this has been its strength. They have been a big contributor to the increases in manufacturing productivity and they'll be the bedrock of manufacturing competitiveness going forward. One thing that has set our economy apart is its innovative approach, and manufacturing generates most of that.

Investments in research and development (R&D) are the single most important source of technological advance that leads to higher productivity. While manufacturing made up 17% of the economy in 2000, it accounted for a whopping 62% of the R&D performed in the U.S.

Manufacturing's technological innovations permeate other sectors of the economy and create a multiplier effect both as an intermediate activity and as a generator of jobs. Specifically, every $1.00 of manufacturing product sold to a final user generates an additional $1.43 of intermediate economic output – more than half of that in sectors other than manufacturing. And, again, through the multiplier effect, every $1 million in final sales of manufacturing products, eight jobs are supported in the manufacturing sector and six in other sectors (such as services, construction and agriculture). What this means is that manufacturing is a generator of wealth for both the country overall and for its individual citizens. Importantly, other sectors do not have a similar robust multiplier effect for our economy

Manufacturing is not, however, inward-looking, concentrating only on domestic products and markets – no one has that luxury anymore. Globalization has created a sea change in the way manufacturers do business, and international trade is an enormous part of that.

As a percentage of gross domestic output, manufacturing's share of international trade has consistently increased since 1987, going from 20% to 40% of gross output (exports plus imports). Other industries share of output has basically flat-lined. Manufacturing is 6 times more "trade engaged" than the rest of the economy – but this also means that it is seriously affected by factors such as trade barriers, currency exchange and regulations not enforced in countries other than the U.S.

This leads us to some of the problems manufacturing now faces. Unlike other industries, healthcare for example, manufacturing can't pass on the rising costs of doing business to its customers. In healthcare it's pretty easy to do so since your business transaction takes place specifically between you and your doctor. It's just too hard to get your check-up and your diagnosis from a doctor halfway around the world. But in manufacturing, customers are demanding high-quality products at low prices, and they don't care where the product is made. So in order to meet this demand, manufacturing prices have remained relatively flat for about a decade.

Yet it is estimated that the cost of compliance alone for federal, state, and local government regulatory mandates are $1.2 trillion – double 1988 levels. Doing business from the United States has become more expensive because of 1) high U.S. corporate tax rates; 2) excessive litigation; 3) regulatory compliance; 4) healthcare costs; and 5) natural gas costs. This means the cost of doing business here in the U.S. is an onerous one for manufacturers.

As you can see, manufacturing is just too important to the American economy, national security, and a high-quality way of life for American citizens, to let it slip away. It has been and continues to be the nexus of American economic activity. We need to ensure its place for the future and to ensure that American workers have the skills they need to be a part of this noble industry.

According to Dr. Anthony Carnevale, an economist and vice president with the Educational Testing Service, the graying of the baby boomers is putting a serious drag on labor force growth. The growth rate of the American labor force will decline as the baby boom generation retires and this will affect not only the overall size of the workforce, but the number of workers with some college education. There will be a surge in the 18-24 year old college-going population through 2015, but it's not going to be enough to fill the demand for workers in the higher skilled jobs of the future. And this is going to increase the competition for all workers – in manufacturing as well as other industries.

The problem is that the historical and projected increases in the share of jobs that will require at least some college far exceeds the small increase in the college age population. The Bureau of Labor Statistics projects a 22% increase in jobs that will require at least *some* college by 2008. So if the trend continues through 2020, roughly 15 million new jobs requiring some college will be created, but there'll be a net deficit in workers with some college education of about 12 million by 2020. In manufacturing we see this as a crisis because in today's modern manufacturing plants workers at all levels are faced with the need to be higher skilled than in the past.

The National Association of Manufacturers is, in fact, doing something about this. Supported by the NAM Board of Directors, the NAM has conceived a campaign for Growth and Manufacturing Renewal. The campaign is raising awareness of manufacturing's importance to the American economy and how it's changed over the last half century; drawing attention to the demand for a new breed of highly-skilled workers in the new manufacturing careers; emphasizing the necessity for a level-playing field across the globe so that U.S. manufactures don't have to pay high tariffs to export their products while overseas trade come in nearly duty free; and pushing for better cost/benefit analysis on all regulations and laws.

A core part of this campaign includes the NAM Manufacturing Institute's "Dream It; Do It" careers campaign – an effort being launched in two cities and one state (Kansas City, MO, Detroit, MI and Connecticut) to convene and coalesce government and civic leaders, educators and parents and incorporate media outreach, to dispel old notions of manufacturing and its careers and build supportive environments to help young people

get the skills they need to get into a good advanced manufacturing jobs. Our goal is to make manufacturing a preferred career choice by 2010.

The NAM also supports legislation such as the reauthorization of the 1998 Workforce Investment Act (WIA), the Federal Carl D. Perkins Act of 1998, and the Higher Education Act. This legislation will help support a seamless transition from the K-12 education system to access to career-appropriate post-secondary education and training and the student aid needed to get it.

And the NAM Manufacturing Institute/Center for Workforce Success is working very closely with the public workforce system and the NAM's affiliate associations – who act as workforce development intermediaries – to help manufacturers find, hire, train, advance, and retain skilled workers. These intermediaries, whose knowledge of the business community is crucial to this effort, work with local stakeholders such as community colleges, economic development agencies, community-based organizations, unions, training suppliers and the like to ensure that people who want good jobs in manufacturing have the opportunities they need to get them. Simultaneously, manufacturers who need skilled employees to work in their modern manufacturing plants will have a workforce pipeline producing workers with the skills they need to be productive and competitive.

In addition to the careers campaign and the workforce development intermediary program, the NAM has convened its Coalition for the Future of Manufacturing. The Coalition is dedicated to raising awareness, particularly among elected officials of the critical importance of a strong manufacturing base to American prosperity. It seeks pro-growth public policy changes for ensuring the U.S. manufacturing base of the future. To advance these goals, the coalition focuses on educational activities that raise awareness among elected officials of manufacturing's importance and current challenges; on involvement, to rally manufacturers nationwide, including thousands of companies and associations and millions of workers who make things in America; and on advocacy to encourage action on public policies needed to renew and strengthen the U.S. manufacturing base.

These are the efforts the NAM is making to ensure that the backbone of the American economy – manufacturing – remains so well into America's future. For without manufacturing, America and its workers will have a very bleak future.

Thank you.

During my liftime, Greenville-Spartanburg has evolved from being the "textile center of the world" where little-to-no emphasis was placed on education, to becoming a most diverse international manufacturing base where jobs are now driven by knowledge and necessitate undergraduate and graduate degrees. The old K-4 mentality has been irrevocably replaced by K-20.

Manufacturing today requires skill and knowledge. With our technical education systems as well as the eight university consoritum in our University Center, Greenville-Spartanburg is competently positioned for her competative place in our global economy to supply any industry with skilled and knowledge workers.

G.F. League Manufacturing Company is a fourth generation, family owned, family operated custom fabricator located in Greenville since 1917. We have been proactive and innovative by upgrading our technology and machinery, hiring more knowledge workers, severely cutting budgets, and greately diversifing the industries we serve in order to stay in business.

North America is hemorrhaging manufacturing jobs - over 2.6 million jobs have vanished in the last two years. We have lost the textile industry and are loosing the furniture industry. Our company receives auction notices on a weekly basis from third, fourth, and fifth generation one hundred year old plus businesses that have closed their doors forever - many of them in North and South Carolina.

In September, I delivered a fourteen pound box of these 2-page notices to Senator Lindsey Graham in Washington and asked him to please work with our newly formed Congressional Manufacturing Caucus and Reps. Don Manzullo and Tim Ryan to help us prevent continuation of this tragic devastation.

There are, in my opinion, several reasons this is happening. All companies are primarily responsible for doing everything they can to remain competative by having a near constant cycle of product development based on new research, new technology, and new ideas.

However, many of them did do everything they could, and they still lost their businesses.

We are not playing on a level playing field. **The inequities in currencies, labor costs, and over restrictive mandated regulations is killing U.S. businesses. We must have in place fair trade policies and they must be consistently enforced.**

The governments of China, Japan, Taiwan and Korea, in particular, have severely undervalued their nation's currencies making it more expensive to sell American goods in their countries and cheaper for their products to come into the U.S.

For these countries to be able to purchase materials to manufacture a product, purchase all the required hardware for that product, assemble the product with all the necessary hardware, ship it halfway around the world, and sell it in our country for less than the hardware alone would cost a U.S. manufacturer is neither logical, fair, moral, nor ethical. Our government must recognize this.

We desperately need tax incentives for existing small businesses. We need Congressional reforms in export control policies; and, we need legislation passed to lighten the mountains of regulations that we are forced to comply with. Or, all other countries must be held accountable for these same regulations.

Commodity-like manufacturing is going away and will almost certainly never return to our shores. However, the ingenuity of America's entrepreneurs is an inherent strength that our nation must leverage. Anything the federal government can do to promote innovation (research tax breaks, encouraging more public/private partnerships between small business and research institutions, etc.) will lead to long term growth for small manufacturers.

The United States cannot afford to lose its industrial base. Without a manufacturng foundation, a service industry cannot exist. The future of our country's economic success depends on Congress giving our U.S. manufacturers a fighting chance to survive.

When I was twenty years old I started out in textiles as a battery filler. During the next twenty-five years I worked most of the time in textiles. I was a hard worker and a quick learner. I quickly learned to do other jobs until I finally became a weaver. I was proud of the quality and quantity of my work. From 1985 until November 1999, I was a weaver at John H. Montgomery Mill in Chesnee, SC. Most of the workers at the mill either grew up together or went to school together. We were extensions of each other's families. When word came our plant was to be closed because of NAFTA, I was heartbroken. I felt I had lost a member of my family.

I did not think I had the skills to do anything but textiles. I knew it would be useless to try to get a job in another mill because they were facing the same loss as our mill. I had a child and had to think of our welfare and our future. I knew I would need new skills to rejoin the workforce and the only way to get them would be to go back to school. I was terrified at the prospect of going back to school at the age of forty-five. I had been out of school for twenty-seven years. So with the help of the One Stop Career Center and the JTPA, I was able to attend Spartanburg Technical College and receive an Associate Degree in Office Systems Technology. They paid for my tuition and books for the five semesters that I attended. I started school in January 2000 and graduated in July 2001. I even made the dean's list four out of the five

semesters I attended. If not for the support and encouragement from the One Stop Career Center and Charlton Williams, I may have given up and not graduated. Charlton kept telling me I could do it and she had faith in me. I am very grateful there was a One Stop to help all the displaced workers who lost their jobs then and are still helping displaced workers now.

The help from the One-Stop did not stop when I finished school; they also helped me find a job. When a position came open in the Financial Aid Office at Spartanburg Technical College, Charlton encouraged me to apply. I applied and was hired for the position. The position was a temporary one under contract but I was happy to have the opportunity to prove myself. When the job became a permanent position, Charlton again encouraged me to apply. I did and I was hired for the permanent position. I have worked in the Financial Aid office since I graduated and am in a position to see other displaced workers who are going through what I did and being helped through the One Stop. I try to encourage them when they come in and say," I am forty something and have been out of school for a long time, I don't know anything else". I just look at them and say, "You can do it, I did".

Deborah Moore